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Referendum on Reaganomics Is Seen as Americans Vote

Renewal of House, Third of Senate
May Be Midterm Democratic Gain

By Fred Farris
International Herald Tribune

WASHINGTON — Americans voted Tuesday for 33 senators, 425 congressmen, 36 governors and a host of local officials in a midterm election that many consider a referendum on President Ronald Reagan's economic policies.

Pollsters for both Democrats and Republican parties predicted the turnout would reverse the downward trend of midterm elections — halfway through the four-year presidential term — in the last two decades.

Most of the polls closed after midnight GMT. Political observers, while saying local and regional issues would determine results in many races, were expecting a general temperature-testing on Mr. Reagan's controversial economic principles, which many Americans blame for the current 10.1 percent unemployment rate and deep recession.

Mr. Reagan himself was "hopeful" of the outcome, said the White House spokesman, Larry M. Speakes.

Spokesmen for both parties have conceded that the results in the House race are the test on which to measure the president and his Republican Party. But Democrats, who in mid-October had anticipated a landslide in their favor as a result of economic hard times, now are more modest in their hopes for gains.

Final estimates by party officials were that the Democrats, who already control the House by a 241-192 margin (with two vacancies), would gain 15 to 20 additional seats and would increase by a minimum of five seats the Democratic strength in governorships. There now are 27

Democratic, 23 Republican governorships.

(The reason only 425 seats in the 435-member House were at stake Tuesday is because of a unique Louisiana law that led to election of its eight House members — six Democrats, two Republicans — in the Sept. 11 primary, and because two seats in a redrawn Georgia district will be voted on Nov. 30.)

Of the House Democrats, between 29 and 44 are conservatives who have given Mr. Reagan the margin of victory for his controversial spending and tax cuts in the 97th Congress.

But analysts predicted continued Republican control of the Senate, which they now control, 54 to 45, with one Independent. However, some Senate races are so close that Republican strength may drop by two or three seats.

In addition to thousands of state and local elections, there were referendums and initiatives on many state and city ballots, involving such controversial issues as handgun bans, return of the death penalty, legalized gambling, abortion and whether to endorse a nuclear weapons freeze.

More than \$300 million was spent in the congressional campaign, making this the most expensive House-Senate election in history.

In the last days of the campaign, which ended Monday, Democrats have tried to increase voter fears that Republicans have secret plans to curb Social Security benefits after the election.

The party chairman, Charles Manatt, cited a story Monday to that effect in the new newspaper, USA Today, and called the re-



President Reagan on election night as he left a Washington hospital after visiting an adviser who had suffered a stroke.

ported intention "the most elaborate cover-up and clandestine operation since Richard Nixon's Watergate caper."

Mr. Speakes called the allegation "an outright lie."

Appearing in a joint television interview Tuesday morning, Mr. Manatt and the Republican national chairman, Richard Richards, agreed the Senate races were crucial to the nation's next two years. While Mr. Richards

predicted a one-to-two-seat Senate gain for the Republicans, a 10-12-seat House loss and the loss of four governorships, Mr. Manatt predicted Democrats would gain at least two Senate seats, pick up 20 or more House seats and five to seven state houses.

Among the key contests are these:

● In a classic left-vs.-right (Continued on Page 2, Col. 7)

In Period of Transition, Electorate Is Unsure of What Message to Send

By Haynes Johnson
Washington Post Service

WASHINGTON — Tuesday's election has been billed as a referendum on Reaganomics. To the extent the voters strengthen or diminish the president's governing congressional coalition, that description is correct. But no ballot fashioned this fall provides citizens an opportunity to express the complicated kinds of political messages many would like to deliver.

A reporter returns home after talking with people in all sections of the country convinced they want to stay the course with the president and to force him to make a midcourse correction in his policies.

These are not as paradoxical as they seem. People know that long after this election has passed into history fundamental economic problems will continue to bedevil the country, and they are not being addressed by the current national political debate.

People interviewed, whether in big business or in organized labor, in small business or in farm country, recognize that America appears to be in transition. Basic heavy industries that provided much of the nation's wealth and jobs are being replaced by something different. This fact raises major questions about how best to prepare the country for its next phase and how to retrain perhaps millions of workers affected.

Another fact emerges from this long look at the country today. To economic dislocation, has shaken people everywhere. It has torn away illusions about regions or individuals being immune from recession. In this respect, today's economic climate

differs significantly from others over the last generation.

For the first time, an entire spectrum of society is affected. If not themselves, they know someone who has been seriously hurt, who either has lost a job or a business or stands in danger of suffering one or both of these blows.

Naturally, that experience is profoundly disturbing. It also carries political connotations. Two scenes, out of many, are vivid.

In Greenville, South Carolina, in a church annex, volunteers were beginning to serve unemployed men, women, and children lunch in a soup line. One of the volunteers, a retired textile executive who survived the Great Depression, was talking about a church board meeting he recently attended. People present, he recalled, kept mentioning the name of someone they knew who has been badly hit by the recession.

That's when it comes home to you how serious it is," the man said. He had other reasons: His son, a professional, has just lost his job.

The other scene was in a similar setting. In Everett, Washington, the anteroom of the Volunteers of America office was crowded with people waiting for the daily distribution of free food to begin. Seated to the side was a middle-aged couple. The woman was holding her husband's hand, and his head was slumped in dejection. Written words cannot convey the picture of desolation and defeat. They had come to an end, and knew not where to turn.

The new realities of these new hardships are causing people to

(Continued on Page 2, Col. 4)

Beirut Leaders Seek Power to Rule by Decree

By James F. Clarity
New York Times Service

BEIRUT — Prime Minister Shafiq al-Wazzan asked the Lebanese Parliament on Tuesday for sweeping emergency powers to allow the administration of President Amin Gemayel to rule Lebanon by decree.

Mr. Wazzan asked Parliament for power to act in every aspect of Lebanese life without the approval of Parliament for eight months. He also asked Parliament for a vote of confidence in his 10-member cabinet and linked the vote to concomitant approval of the emergency powers.

Political analysts said it was too soon to predict whether the Parliament, which elected Mr. Gemayel in September, would give him the vote of confidence and the right to rule by decree.

But during his speech to the Parliament making his requests, Mr. Wazzan was interrupted several times by deputies yelling their opposition to his proposals. Parliament is to begin debate on the prime minister's requests on Thursday.

"In my 40 years in government," said former President Camille Chamoun, a Christian deputy, "I have never seen a government ask for such powers."

Salim, a former prime minister and still the most prominent Moslem leader in the country, said after the prime minister's speech that the vote of confidence should not have been linked to the request for emergency powers.

Mr. Wazzan, a Moslem named by President Gemayel, a Maronite Christian, to succeed himself last month as prime minister, asked for "emergency and extraordinary legislative power to be able to amend existing laws and regulations and introduce new legislation," according to a summary of his speech issued by the Information Ministry.

The powers are sought in all areas of government — the military, state security, information, the judicial system, education, economy and finance, and the civil service.

Specific changes in laws were not specified. Mr. Wazzan, for the second consecutive day, also openly criticized Israel for its occupation of the southern half of the country while stating that Lebanon wanted good relations with Syria, which occupies much of the north and east of the country.

On Monday, the prime minister accused Israel of paralyzing Lebanese government functions, and he threatened Lebanese officials and citizens who collaborated with the

Israelis with loss of their Lebanese citizenship.

The prime minister's attitude is a paradox, produced and explained by the intractable duplicity of Middle East politics. Mr. Gemayel, who named Mr. Wazzan prime minister, was for years a leader of the Christian Phalangist party, whose military forces were headed by his younger brother, Bashir.

Bashir Gemayel, who had his militia armed by Israel and was considered at least cordial to Israeli, was elected president, with Israeli approval and while Beirut was encircled by the Israeli army in August. He was assassinated Sept. 14 and Parliament elected Amin Gemayel in his place.

Amin Gemayel had not been active as a pro-Israeli Phalangist and had quietly kept up contacts with the Palestine Liberation Organization and leaders in Arab nations.

When he became president Sept. 23, he made it clear that he did not want to sign a peace treaty and have immediate diplomatic relations with Israel. Mr. Gemayel has also made it clear that he wants close relations with Arab nations, and he plans to visit several of them next month.

In another development in Beirut, the U.S. Marines announced Tuesday that they would begin Wednesday to patrol East Beirut, until now the stronghold of the Phalangist-dominated Christian militia. The Reagan administration decision to permit the broader role for the Americans was announced in Washington Monday.

Colonel Jonathan Abel, the marine spokesman, emphasized that the marines would not be looking for a fight. "Our mission," he said at a press briefing, "is an extension of our presence, to facilitate the president of Lebanon's efforts to stabilize the country."

In recent weeks, the Lebanese Army has established a slight presence at a few intersections in East Beirut but has not taken control of the Christian sector of the capital. Simultaneously, the Christian militia have removed their checkpoints and ordered their soldiers not to wear their uniforms in the street.

■ Draper Returns to Beirut

The special U.S. Middle East envoy, Morris Draper, arrived back in Lebanon from Israel on Tuesday to brief Lebanese leaders on the differences still remaining between the Lebanese and Israeli troops on the best framework for troop withdrawal negotiations, according to The Associated Press and United Press International.

Pope Strongly Condemns Divorce And Abortion in Address in Spain

By Henry Kamm
New York Times Service

MADRID — Pope John Paul II, cheered by a crowd estimated at more than one million people, condemned divorce and abortion here Tuesday in terms of exceptional force.

Spain, which is heavily Roman Catholic, legalized divorce last year and its newly elected governing party has committed itself to liberalizing the law that prohibits any abortion.

Earlier in the day, at the royal palace, the pope had warmly shaken hands with Felipe González, who is to become prime minister early next month, when the Socialist Party forms a government following its victory in last week's elections.

Speaking at a Mass dedicated to Christian families at a plaza in central Madrid, the pope put forward the traditional position of the church on marriage and the family without adding anything new, but he did so in language stronger than he has used for some time.

He was repeatedly interrupted by resounding applause when he allowed his voice to rise in emphasis. He spoke clearly in Spanish that bore the mark of his native Polish.

"Matrimony is an indissoluble communion of love," the pope said. "Therefore, any attack on conjugal indissolubility is at the same time an attack on the original design of God and the dignity and truth of conjugal love."

Although on his arrival in Spain Sunday the pope stressed the strictly pastoral nature of his 10-day visit and appeared to forswear a voice in political matters, he called on Catholics to live in indissoluble unions "even in the presence of legal norms that may point in another direction."

Turning to birth control, John Paul quoted his predecessor, Pope Paul VI, who said, "Every conjugal act must remain open to the transmission of life."

It was on abortion — which the

Socialists said they would permit to save a woman's life if endangered, or if the fetus appeared abnormal or if pregnancy was the result of rape — that the pope issued his sternest condemnation.

"I speak on the absolute respect for human life, which no person or institution, private or public, can ignore," he declared.

"Therefore, whoever denies defense to the most innocent and frailest human person, to the human person conceived but not yet born, commits a most grave violation of moral order," the pope said. "Nothing can legitimize the death of an innocent."

"What sense can there be in speaking of the dignity of man, of his fundamental rights, if one does not protect the innocent, if one goes as far even as to facilitate means and services, private or public, to destroy defenseless human lives?" the pontiff continued.

John Paul also spoke strongly on the "inalienable" duty and right of parents to see to it that their children receive "an education in accordance with their moral and religious convictions."

As if to put the incoming government on guard, he quoted the section of the Spanish Constitution that grants this right. The Socialists had not contested it in the election campaign, but some Spaniards expect a review of the amount of government subsidies paid to Catholic schools.

■ Respect for Socialists Urged

The pope, in a meeting Tuesday with Spain's political and military leaders at the palace of King Juan Carlos I, urged respect for Spain's newly elected Socialist government, Reuters reported from Madrid.

He said: "I would like to express my greetings and respect to the legitimate representatives of the Spanish people whom they have elected with their mandates to govern their destinies."

Praising the efforts of Spaniards in building democracy since the



U.S. Marines strung barbed wire around their camp near Beirut on Tuesday after a bomb blast.

Key Congressmen Caution Reagan Against IMF Loan to South Africa

By Richard M. Weintraub
Washington Post Service

WASHINGTON — Key members of Congress have warned the Reagan administration that a favorable vote by the United States on a \$1.1 billion International Monetary Fund loan to South Africa could jeopardize future U.S. funding for international lending.

At least 35 legislators have written Treasury Secretary Donald T. Regan opposing the loan outright or urging that such a loan contain conditions designed to change South Africa's system of apartheid.

Reagan administration sources have given no public indication of how the United States will vote Wednesday, but they say that a delay, which some members of Congress have requested, is unlikely and that the U.S. vote will be strictly on economic grounds.

A meeting between a Treasury delegation led by Richard Erb, the U.S. executive director to the IMF, and congressional staff members a week ago failed to sway Capitol Hill sentiment, according to participants.

"My greatest concern is that U.S. support for yet another IMF loan to South Africa, the largest international loan in South Africa's history, will be perceived by the South African government as an endorsement of the government's spending priorities and will

be viewed by the nonwhite community within South Africa as support for an unjust status quo," Representative Howard Wolpe, a Michigan Democrat and chairman of the House Foreign Affairs subcommittee on Africa, wrote Mr. Regan.

Thirty-one members of Congress from the Ad Hoc Monitoring Group on Southern Africa pointedly warned Mr. Regan in a letter dated Oct. 21: "It is very likely that the question of U.S. participation in the IMF will be raised during the next session of Congress."

Mr. Wolpe noted more explicitly in his letter that Congress is to take up IMF funding at the next session and said, "I doubt whether U.S. taxpayers would support the continued extension of U.S. taxpayers' dollars to a white-minority government whose entire framework of laws, institutions and practices are anathema to the principles upon which this country was founded."

Supporters of the loan fall into two categories. By far, the larger number argue that IMF loan decisions must be kept free of political considerations because to do otherwise would subvert the institution. The IMF is one of the main tools for international monetary authorities to assist troubled economies.

Others argue that even on political grounds the administration's policy of "constructive engage-

ment" toward South Africa has brought greater change in that government's policies than the confrontation of previous administrations.

In an Oct. 19 letter to Mr. Regan, members of the Congressional Black Caucus sharply attacked the loan, arguing that it is impossible to separate economic and political considerations in regard to South Africa and citing other situations where the United States is believed to have used its influence to oppose a loan for political reasons.

"The administration has politicized the IMF on a number of occasions: in opposing loans to Nicaragua, Vietnam and Grenada, and in insisting upon a loan to El Salvador despite Western European and IMF staff opposition on financial grounds," the letter said.

The loan issue comes at an awkward time for the administration as it struggles to maintain momentum for the centerpiece of its Africa policy, an effort to gain independence from South Africa for South-West Africa (Namibia). After considerable progress earlier this year, the negotiations appear to have hit a serious stumbling block over the issue of Cuban troops in Angola.

The UN General Assembly voted, 121-3, last month to oppose the loan to South Africa. West Germany and Britain joined the United States in that vote.

INSIDE

■ Since its creation, the International Atomic Energy Agency has been something of a favorite child of the United States. But today it is something of an orphan, its future in doubt. Page 5

■ The Japanese government will file a formal complaint against the International Whaling Commission's decision to end commercial whaling in three years. Page 3

■ U.S. and allied diplomats met for the third time in a little more than a week but reported no movement on an East-West trade agreement to replace Soviet gas pipeline sanctions. Page 3

■ A report on international commodities markets appears today. Page 5S.

Mubarak Sees No Bars to Talks With Begin

Compiled by Our Staff From Dispatches

CAIRO — President Hosni Mubarak, expressing confidence that a border dispute with Israel would be settled eventually in Egypt's favor, said Tuesday that there were "no complexities" to prevent a meeting between him and Prime Minister Menachem Begin on their countries' disputes.

"I could meet him anywhere. It is not a problem. There is nothing personal between me and Mr. Begin," Mr. Mubarak said after a meeting with a group of provincial leaders. "I have no complexities that stop me from meeting him."

But he said it would be better to delay such a meeting until agreement is reached on a new basis for negotiations on a global settlement. Mr. Mubarak made it clear that the new basis had to be in line with the Reagan initiative, an-

nounced in September, which calls for Palestinian self-government in association with Jordan in the West Bank and Gaza Strip.

Mr. Mubarak said talks last month between King Hussein of Jordan and Yasser Arafat, leader of the Palestine Liberation Organization, were a new element in the search for peace in the Middle East.

An agreement between them on a formula for a federation between Jordan and the 1.3 million Arabs living in the West Bank and Gaza could help in the resumption of the stalled Palestinian autonomy talks, he said.

Urging the United States to assume a larger role in seeking a Middle East settlement, Mr. Mubarak said he wanted Israel to end the border dispute with Egypt as a sign of good will.

"If this materialized, then we

could resume autonomy talks on a new basis," he added.

Mr. Mubarak sounded confident that the disputed Taba area, overlooking the Aqaba Gulf, would be handed over to Egypt, as the rest of the Sinai desert was restored last April. He offered to purchase a hotel Israel inaugurated in the region Monday.

"Let Israel do what she likes, build the hotel and open it," Mr. Mubarak said. "We are going to pay for it afterward and take it from them."

Mr. Mubarak said the United States, a partner to a preliminary agreement reached in April between Egypt and Israel on Taba's status, would assume a role in talks. Egypt is pressing for a resumption of negotiations to resolve the dispute through conciliation, and failing that, binding arbitration.

The Israeli cabinet said on the weekend that it was prepared to resume talks on Taba, suspended since May, only if they were part of talks on broader issues between the two countries, including the normalization of bilateral relations, which halted after Israel's invasion of Lebanon.

Relations became even more strained when Egypt recalled its ambassador in Tel Aviv in September after reports of the massacre of Palestinians in West Beirut.

Mr. Mubarak has not been to Israel since he became president in October 1981.

He was planning to visit Israel earlier this year, but Israel canceled the visit when Mr. Mubarak insisted on not including Jerusalem in his tour.

Egypt does not recognize Jerusalem as Israel's capital city.

Iran Claims Recapture of Outposts In Major Offensive Against Iraq

LONDON — Iran said Tuesday that its forces had recaptured 95 square miles (250 square kilometers) of territory and won back four military outposts from Iraq in a new offensive in the Gulf war.

The national news agency IRNA said Iranian anti-aircraft batteries had shot down an Iraqi plane in the offensive.

Iraq, however, said that its forces had beaten back the Iranian attack and that Iraqi planes were bombing Iranian armor and military targets. Iraq said none of its planes had been hit.

Both Iraqi and Iranian reports said the latest offensive began Monday night west of the Iranian city of Dezful. The operation, called Moharram after the current Shiite Muslim month of mourning, restored to Iranian control the Bayat oilfields and a road linking the Iranian border towns of Dehloran and Musian, Tehran radio said.

The offensive followed Iran's rejection of the latest peace moves to end the war. Two weeks ago an Islamic peace mission visited Iran and Iraq in an unsuccessful attempt to end the conflict. Iran Monday called the mission "American-inspired" and rejected its proposals for a peaceful settlement of the war.

The speaker of the parliament, Hojatollah Hashemi Rafsanjani, who represents Ayatollah Ruhollah Khomeini on the defense council, urged foreign journalists Tuesday to visit the battlefield, an indication that Iranians had done well in the operation.

The offensive was the third major push since July, when Iranian forces first crossed the border into Iraq. It was aimed at freeing land occupied by Iraqi invasion forces at the start of the 25-month-old war rather than at capturing Iraqi territory, Tehran radio said.

Tehran radio said the drive be-

gan during a rainstorm late Monday night with Iranian infantry smashing through Iraqi fortifications, mine fields and bunkers along a 55-mile (90-kilometer) front in the border provinces of Khuzestan and Ilam.

IRNA said that many Iraqis had been killed in the operation and that 117 prisoners, including senior officers, had been transferred behind Iranian lines.

Tehran radio also said Tuesday that Iranian government forces have killed 40 Kurdish guerrillas in battles near the Iranian border town of Sardasht.

The radio said revolutionary guards had recaptured several heights overlooking a road linking Sardasht and Piranshahr in the province of West Azerbaijan.

It said several villages had been cleared of Kurdish guerrillas, who are fighting Tehran for autonomy. One guardsman had died in the operation, which was launched two nights ago, the radio said.

Kabul Protest Said to Block Draft

By Sanjoy Hazarika

NEW DELHI — More than 2,000 Moslem tribesmen recently held a three-day peaceful assembly in Kabul to protest the conscription of members of their community into the Afghan armed forces, and the conscription plan was withdrawn, a Western diplomatic source said Tuesday.

The diplomat said it was the "strongest" public protest by Kabul residents in more than a year against the Soviet-installed regime of President Babrak Karmal and that it underscored the continuing hostility toward the communist government.

The source said Pakhtia tribesmen, defying a ban on public assembly, met in central Kabul in mid-October to object to the conscriptions, which broke a 50-year tradition. The "jirga," or assem-

bly, was surrounded by troops and, on its first day, a high-ranking Afghan official met with the tribal leaders and ordered them to disperse, according to the source.

A diplomatic report from Kabul said that the official told the tribesmen that the government had withdrawn their exemption from military service because they had failed to curb rebel activity in their province.

The tribal leaders threatened to kill the official if he did not leave the meeting and told him that "decisions about Pakhtia could be taken only in Pakhtia and not in Kabul," the informant reported.

Two days later, the source said, the same official returned to the gathering and announced that the orders had been "temporarily rescinded." The assembly then dispersed, and reliable reports from Afghanistan say that con-

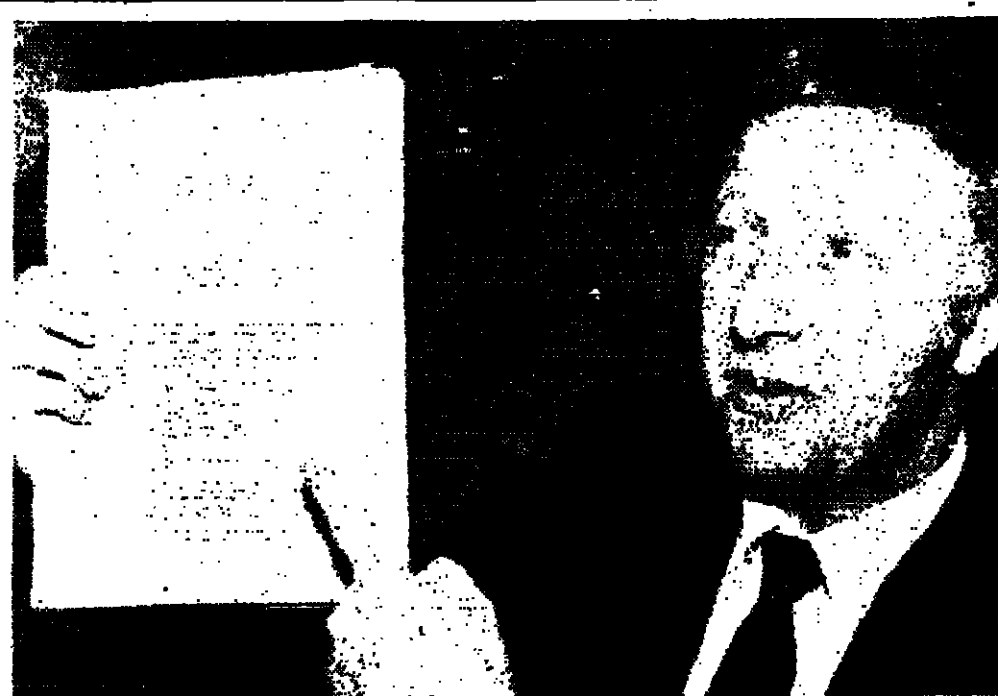
scripted Pakhtia tribesmen had been brought back to Kabul and demobilized.

The Afghan Army has been weakened by casualties and desertions since Mr. Karmal took power.

Kabul Fighting Reported
William Claiborne of the Washington Post filed the following account from New Delhi:

Western diplomatic sources said Tuesday that despite frequent house-to-house searches by Soviet and Afghanistan Army troops and a general tightening of security in Kabul, Afghan guerrillas had intensified their attacks in and around the city.

Afghan exile sources offered similar reports of fighting in Kabul as offensives in the countryside began to bog down with the onset of winter.



Arthur Scargill, president of Britain's National Union of Mineworkers, displaying what he said was a National Coal Board list of coal pits designated to be shut in the next five years.

British Coal Miners Reject Strike Vote

LONDON — Britain's coal miners Tuesday humbled their militant left-wing leader, Arthur Scargill, by refusing to sanction a strike to press demands for a 31-percent pay increase.

Instead, the National Union of Mineworkers voted overwhelmingly in a secret ballot to accept an 8.5-percent offer, averting what would almost certainly have been a damaging confrontation with Prime Minister Margaret

Thatcher's Conservative government.

Mr. Scargill, who needed 55-percent support to authorize strike action, was rebuffed by 61 to 39 percent in the ballot of 207,000 miners at 197 pits around the country last week. Results of last week's two-day vote were unofficially disclosed over the weekend but announced officially Tuesday.

The union leader described the vote as only a temporary set-

back and vowed that the state-run National Coal Board would still have a fight on its hands if it tried to close any pits.

Mr. Scargill said the haunting fear of unemployment was a factor in the voting. Britain now has 3.3 million people out of work. He had staked his prestige on getting the strike mandate to emphasize his personal hold over the union and set it firmly on a leftward course in his first year as president.

Americans Unsure in Period of Transition

(Continued from Page 1)

re-examine their views about political and economic questions.

What comes through is a hope, expressed everywhere, that the pain of the present will prove to have been a necessary element in eventually leading the nation to

better times, to a period in which inflation and unemployment are brought under control. At the same time, an overwhelming majority voice doubts about specific components of President Ronald Reagan's approach.

One word keeps coming up voluntarily during conversations

about the president's economic program and its effect on the country's balance.

Even Mr. Reagan's strongest supporters, those who would like to vote for him again, will say his program has been out of balance. Hardly a single business executive interviewed, for instance, favors the kinds of military spending increases Mr. Reagan advocates.

Most business executives also disagree with the way his tax cuts were originally put in place.

Larry Ansin is typical. He is president of Joan Fabrics, in Lowell, Massachusetts, a company described as the world's largest producer of upholstery fabrics. Mr. Ansin ardently supports Mr. Reagan and his basic approach. "It's fantastic," he says. "It's a cold bath. We all needed it." But he is equally firm as he ticks off policy changes he would like to see Mr. Reagan make.

"One, defense spending. We must cut back on defense spending. Two, we must tighten up on tax loopholes for the wealthy. It must be done. Third, we must look at areas to increase our taxes. We've got to balance our budget."

Interestingly, the sense that policies are out of balance extends beyond a political context. Another common refrain involves the belief that all Americans share the blame for current troubles.

"We have been too greedy and too selfish, and now we are paying the price for such excesses. 'We're all spoiled rotten, everyone of us,' said Bob Long, a merchant in Everett and one of the few who has done well there recently. 'We all grew so damn rich it's sickening.'"

Of all those interviewed, perhaps William D. Ruckelshaus best put into words a political message for this day that others have been expressing.

Mr. Ruckelshaus, a Republican who earned national fame when he resigned as President Richard M. Nixon's deputy attorney general during the Watergate scandal rather than fire Special Prosecutor Archibald Cox, and now a top executive for Weyerhaeuser Co., assesses the political situation facing the president and the country this way:

"It's curious. You'd think, given the economic downturn and the extent to which program cuts quite obviously have disproportionately affected the poor, that there would be quite a backlash against what the president is doing. It is building, but it is nothing like what I would have expected. I attribute a lot of it to personal affection for him that he can get away with pretty outrageous kinds of programs and still have people like him. The impact of personality on politics is something I think people way underestimate. He is a prime example of it."

U.S. Postmaster Reports Surplus of \$688 Million

New York Times Service

WASHINGTON — Postmaster General William F. Bolger reports that the Postal Service finished the fiscal year 1982 with a surplus of \$688 million, the second in three years.

Mr. Bolger, who Monday addressed the annual meeting of the Direct Mail Marketing Association in Los Angeles, said the financial performance was attributable to gains in labor productivity, sustained volume despite the economic decline and high growth in advertising mail.

WORLD BRIEFS

Iran Rejects New French Ambassador

NICOSIA — Iran will refuse to accept a new French ambassador to Tehran, the Iranian news agency, IRNA, reported Tuesday.

France announced Sunday that it was appointing José Faoli to fill the ambassadorial post in Tehran, which has been vacant since August 1981, when anti-French feeling was high after France granted asylum to former President Abolhasan Bani-Sadr.

The agency said the reason for refusing to accept a French ambassador was "the support France gives to terrorists and counterrevolutionaries," a reference to Mr. Bani-Sadr and Massoud Rajavi, the leader of an Iranian dissident group, who also lives in France.

China Denounces U.S. and Russia

BEIJING — China has issued a strident denunciation of U.S. and Soviet "hegemonists," condemning the two nations as a threat to peace and warning that a third world war is possible.

"The hegemonist actions of the two superpowers," the People's Daily said Sunday, "constitute grave threats to the sovereignty and security of our country and other Asian countries, creating obstacles in the way of developing Sino-U.S. and Sino-Soviet relations."

The article was written by Huan Xiang, adviser to the Academy of Social Sciences. Foreign diplomatic observers said the article showed the Chinese leadership's latest thinking on distancing China from the United States and maintaining a balance between the United States and Soviet Union.

Soviet Aide Denies Geneva Progress

MOSCOW — A ranking Soviet military leader said Tuesday night that U.S.-Soviet arms control negotiations in Geneva were approaching a deadlock because of what he termed calculated American attempts to block any progress.

Colonel General Nikolai Chervov, head of the general staff's department on strategic weapons and a member of the inner leadership of the armed forces, accused the Reagan administration of deliberately seeking to create an impression that some progress was being made in the talks.

"Actually, nothing of the sort has happened," the general said in an interview distributed by the news agency Novosti. General Chervov's comment was the most direct official Soviet statement on the progress of the talks on curbing medium-range nuclear weapons in Europe and reducing strategic armaments by the superpowers.

Work Protests Ending at Maze Prison

BELFAST — One hundred and forty-five nationalist prisoners agreed to end a 13-month work boycott at Maze Prison, apparently ending a six-year protest for political-prisoner status that has left 10 inmates dead in a series of hunger strikes, officials said Tuesday.

The 145 prisoners who had been refusing to work since the end of the hunger strike Oct. 3, 1981, declared themselves available for work, a spokesman for the Northern Ireland Office said. "These people are the last remnants of the republican protests," the spokesman said, referring to the series of hunger strikes that began with Bobby Sands.

The spokesman said seven prisoners apparently had decided to continue the work boycott, but that the decision by the other 145 appeared to effectively end it. British officials said no reason was given for the prisoners' decision. A spokesman for the inmates said there would be no immediate comment on the announcement.

U.S. to Back Falklands Resolution

UNITED NATIONS, New York — The United States said Tuesday that it would vote for a resolution calling for negotiations between Britain and Argentina on the Falkland Islands.

The resolution, sponsored by Argentina and 19 other Latin American nations, calls on Britain and Argentina to resume negotiations on sovereignty of the Falklands, which was recaptured by Britain after Argentina's invasion and a six-week war last summer.

Earlier, Foreign Minister Juan Aguirre Lanari of Argentina accused Britain of maintaining colonial status on the islands, but U.S. officials said the resolution, which Jean Kirkpatrick, the U.S. delegate to the United Nations helped to modify, no longer contained a reference to colonialism.

U.S. Averts Rebuke by Trade Group

GENEVA — Poland failed Tuesday in its attempt to have the General Agreement on Tariffs and Trade condemn trade sanctions imposed on Poland by the United States.

The 88-member group took no action on Poland's proposal that it ask Washington to restore Warsaw's most-favored-nation status. U.S. and Polish diplomats said. The proposal, which was supported in the closed meeting by other Warsaw Pact members and Argentina, will be reintroduced at the group's annual meeting later this month.

President Ronald Reagan suspended Poland's most-favored-nation status Oct. 27 after the dissolution of the independent trade union Solidarity, effectively raising tariffs on exports to the United States by up to 1,000 percent.

Socialists May Weigh Role of Israelis

ZURICH — Socialist International leaders could be asked to suspend Israel's Labor Party from the movement when they meet in Basel on Wednesday, Socialist sources said Tuesday.

Several Socialist parties, including those from Finland, Denmark and Spain, are pressing for exclusion of the party on the ground that it supported the invasion of Lebanon, the sources said.

The issue seemed certain to be raised at a two-day meeting of the international's executive bureau starting Wednesday under the chairmanship of the former West German chancellor, Willy Brandt. The leaders are officially due to discuss the Middle East and a membership request by a radical Israeli leftist party, Mapam, known as the United Workers Party. Mapam has consultative status with the international.

Compiled by Our Staff From Dispatches

Democrats May Gain Seats In Congressional Contests

(Continued from Page 1)

battle. New York's Democratic gubernatorial nominee, Mario Cuomo, the liberal lieutenant governor, holds a 10-point lead over Republican Lewis Lehrman, advocate of supply-side economics, in a New York Daily News straw poll.

• In California's hard-fought Senate race, Democratic Governor Edmund G. Brown Jr., still feels confident although the latest poll shows him trailing his Republican opponent, San Diego Mayor Pete Wilson, by 6 percentage points. Los Angeles Mayor Tom Bradley, a Democrat, was in a tight battle to become the nation's first black governor, with Republican Attorney General George Deukmejian gaining steadily in the polls in recent weeks.

• The Texas governor's race ends with an increasingly confident Republican governor, Bill Clements, predicting a comfortable victory over Attorney General Mark White.

• In Massachusetts, Senator

Edward M. Kennedy, a Democrat, is certain to win re-election and extend his 20-year Senate career. Representative Barney Frank, a Democrat, is considered likely to defeat Representative Margaret Heckler, a Republican, in a contest forced upon both incumbents by a redistricting that will eliminate one.

• In Illinois, Representative Bob Michel, the House Republican leader, was in an unexpectedly tough fight to retain his seat. His opponent, G. Douglas Stephens, is a union lawyer.

France Said to Grant Asylum to S. African

The Associated Press

MONTPELLIER, France — France has granted political asylum to Harry Peterson, 23, the son of a slain anti-apartheid activist, the Center for Third World Documentation announced Tuesday.

The center said Mr. Peterson has been a student in the South African homeland of Transkei. He was said to have fled the country in August after his father was killed by police and his mother and brother were arrested. Details of the killing were not disclosed.

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U.S., Allied Talks on Pipeline Show Growing Irritation

By Richard M. Weintraub
Washington Post Service

WASHINGTON — Senior U.S. and allied diplomats have met for the third time in a little more than a week and reported no movement in their effort to hammer out an agreement on East-West trade that could replace the Reagan administration's sanctions against the Soviet gas pipeline.

The unusual sequence of high-

level negotiations is now believed to have narrowed differences over an eventual accord.

On Monday, U.S. and European diplomats did not rule out the possibility that an agreement acceptable to all parties had been reached. But the diplomats said they expected further meetings would be held. None has been scheduled, however.

But Prime Minister Giovanni

Spadolini of Italy is to arrive in Washington on Tuesday night to meet with President Ronald Reagan on Wednesday, and Mr. Spadolini's visit would provide the next forum for discussion of the sanctions issue.

On Monday, some European diplomats showed signs of growing irritation.

"We don't know what the U.S. administration needs," one senior European diplomat said before the

meeting. "We do know what we can do, but there isn't much room to limit or change that consensus."

A senior U.S. official said the negotiating process seems to have brought home to the Europeans that the "president is serious" about his sanctions policy. "I think something will happen, but the president doesn't have to be in a hurry," the official said.

The comments appeared to reflect the tenacity of the negotia-

tions that have been carried out under the direction of Undersecretary of State Lawrence S. Eagleburger.

The negotiations have been tightly held by the State Department and have sparked something of a political guerrilla war by some elements within the administration who advocate a hard-line position on trade with the Soviet Union.

Mr. Eagleburger is pictured by diplomatic sources as having

pressed continually for more changes and refinements in the positions put forward by European, Canadian and Japanese diplomats without indicating what might be acceptable to the administration.

"What we don't want is a trade war," one European diplomat said. The negotiators appear to be trying to develop defined instructions for a broader study of major issues in East-West trade that could eventually produce a policy to be adopted by Atlantic alliance members and Japan.

The sanctions are applied against businesses that ship U.S.-made or -licensed products related to the oil or gas industries. The Italians are known to be particularly upset at the impending in New York of several key parts for an Algerian gas pipeline.

Weinberger Promises More Thai Arms Aid

United Press International

BANGKOK — Caspar W. Weinberger, the U.S. defense secretary, arrived here Tuesday to push his campaign to counter what he called a growing Soviet threat in Asia and the Pacific and promised Thailand \$122 million in additional military aid.

Before leaving Singapore for a two-day visit to Thailand, Mr. Weinberger reiterated comments by U.S. officials that Soviet military presence in the region is "clearly increasing" and he urged increased military spending by Washington's Asian allies.

General Prem Tinsulanonda, Thailand's prime minister and also defense minister, said that Mr. Weinberger told him during a two-hour luncheon meeting that the United States was increasing its credits for Thai military purchases by \$122 million.

The increase would bring total U.S. military aid credits to Thailand to \$80 million for the current fiscal year.

Mr. Weinberger is visiting Thailand on the second leg of his five-nation Asian tour.

In Singapore, Mr. Weinberger responded to news leaks concerning a five-year Pentagon guidance

plan, saying U.S. planning for a protracted nuclear war came only in response to "erroneous" Soviet beliefs that such a war could be won.

Mr. Weinberger, greeted at Bangkok's Don Muang Airport by Foreign Minister Siddhi Savetsila and other officials, went directly to Government House for talks with General Prem.

In Singapore, Mr. Weinberger said proof of the Soviet threat was shown "every day from the additions they make to their armed forces and the fact that those additions are almost always offensive in character."

He said U.S. defense tasks were further complicated by the Vietnamese decision to allow Soviet ships "full and complete use" of the U.S.-built naval base at Cam Ranh Bay in southern Vietnam.

Mr. Weinberger suggested that the Pentagon might augment the three aircraft carriers of the U.S. 7th Fleet in the Pacific, saying it was "feasible for people to expect another (U.S. aircraft) carrier force in this area."

But he said the carrier group, if deployed, would follow flexible orders to move wherever it was most



Caspar W. Weinberger, U.S. defense minister, conferred Tuesday in Bangkok with Prime Minister Prem Tinsulanonda.

needed — an apparent reference to Pentagon plans to rush sea power to the Middle East if oil supplies in the Gulf are threatened.

Mr. Weinberger also stressed the need for increased military spend-

ing by U.S. allies in Asia and the Pacific, saying he could not "think of a higher priority."

After Bangkok, Mr. Weinberger was scheduled to visit Indonesia, Australia and New Zealand.

U.S. Opens Its Courts to Chinese Suits

By Tamar Lewin
New York Times Service

NEW YORK — The Justice Department has decided that Americans will be allowed to sue Chinese courts to press their claims against the Chinese, and as a result has agreed to allow a \$4.4-million Chinese maritime lawsuit in American courts against the U.S. government to proceed.

The case — the first brought in United States courts by Chinese companies since the 1949 revolution — has been used by Washington to help ensure that Americans have access to the Chinese courts.

This legal reciprocity is considered an important element of American-Chinese trade relations. The ability to sue a foreign government is particularly important in countries such as China, where most large business entities are arms of the government.

The Justice Department's finding that reciprocity exists, announced Monday, is based both on a two-paragraph legal opinion to that effect by the China Council for the Promotion of International Trade, and a longer affidavit by a Columbia University School of Law professor, R. Randle Edwards, an expert on Chinese law, who also found that there is legal reciprocity. The China council is a quasi-governmental Chinese entity devoted to fostering foreign trade.

"There was a time when assurances of reciprocity couldn't have been made, and that was something that made Americans doing business in China very nervous," said Eugene Theroux, a Washington-based China-trade lawyer. "This is a very encouraging development in the evolution of China's recognition of the importance of a predictable body of law."

Soviet Officials Visit Laos
The Associated Press

BANGKOK — A delegation of political leaders from the Soviet Army and Navy arrived Monday in Laos, the official Laotian press agency said Tuesday.

3 Western Envoys Plan Boycott of Soviet Parade
United Press International

MOSCOW — Ambassadors of the United States, Britain and West Germany will boycott the Revolution Day parade Nov. 7 for the third year in a row to protest the Soviet intervention in Afghanistan.

The U.S. ambassador, Arthur Hartman, and his West German and British colleagues will send lower-ranking representatives to the 65th anniversary celebrations of the Bolshevik Revolution, embassy spokesmen said Monday.

Scandinavian ambassadors, who boycotted last year, will attend this year's celebrations.

Japan Formally to Protest Ban on Whaling

By Steve Lohr
New York Times Service

TOKYO — The Japanese government announced Tuesday that it would file a formal complaint against the International Whaling Commission's decision to end commercial whaling in three years.

The cabinet voted to protest the whaling commission's ban despite a last-minute warning from U.S. officials that filing the objection could prompt considerable criticism of Japan in the U.S. Congress.

Mike Mansfield, the U.S. ambassador to Japan, met Monday with Yoshio Sakurachi, the Japanese foreign minister, to express the concerns of the United States, a strong supporter of the commission's decision made last July.

Japan is the world's leading whaling nation, accounting for nearly one third of the 14,000 whales killed last year. It voted against the commission's decision earlier this year, but nations supporting the ban had hoped that it would delay a formal protest and possibly go along with the commission's position.

If Japan could be persuaded or

pressured into switching its stance, it was considered likely that other opponents of the ban, including the Soviet Union, Peru and Norway, might fall into line.

A statement by Mr. Sakurachi, explaining Japan's objection, claimed that there is "no scientific justification" for the commission's ban, countering the view that some whale species are threatened. The statement added that the commission's decision did not give sufficient consideration to the importance of the industry to some Japanese communities.

In Japan, about 1,300 people are employed directly in the whaling industry. When families and those in related businesses are counted, the total number of people dependent on whaling is 50,000. The Japanese taste for whale dates back to 702, when Buddhism was introduced from China, meat eating was stopped and the whale was defined as a fish.

Still, many Japanese apparently believe that their nation should go along with the whaling commission's decision. A public opinion survey conducted by the Nippon Research Center, an independent

organization, that was released last weekend, found that 47 percent of the population favor the commission's decision.

The commission decided by a vote of 25-7 to halt commercial whaling in three years, and then take another five years for scientific research to decide whether whaling should be started again.

Government officials stressed that filing the complaint does not necessarily mean that Japan would defy the commission's decision, but gives it the right to do so. Apparently, Japan hopes that further research over the next three years will support its position that limited killing of whales is not a threat to the species.

The whaling commission cannot force nations to abide by its decision. However, under U.S. law, a nation that ignores the commission decision can be prohibited from fishing in coastal waters up to 200 miles (320 kilometers) from the American shoreline.

Japan's fishing industry catches more than 1.1 million tons of fish, worth about \$360 million, each year in U.S. coastal waters. For comparison, the Japanese whaling

industry is about a \$50 million-a-year business.

Also, Congress is now considering ratification of the U.S.-Japan fishing agreement, which limits the quantity of fish their boats can catch in each other's waters. Presumably, an adverse reaction to the whaling protest could hurt chances of ratification.

Norway to Keep Hunting
Norway will continue to hunt whales in the northeastern Atlantic after 1986, despite the whaling commission's ban on commercial whaling, Fisheries Minister Thor Listau said Tuesday, according to Reuters.

Sadat's Brother Denies Charges of Fraud, Corruption

United Press International

CAIRO — Ezzat Sadat, the younger brother of Anwar Sadat, the late Egyptian president, denied charges of fraud and corruption in an interview published Tuesday and claimed he was a self-made man of wealth who had helped his brother financially and politically.

The opposition newspaper Al-Shaah, which speaks for the Socialist Labor Party, said it interviewed Mr. Sadat last Thursday, one day before he was sent to jail, and quoted him as rejecting the charge that he had used his brother's name to amass wealth illegally, saying: "My name is better than his."

Before his detention, prosecu-

tors had ordered the sequestration of the property and assets of Mr. Sadat and his family. They will face charges of fraud, trading on the black market, illegal seizure of state property, extortion of protection money and political corruption, officials have said.

Mr. Sadat, 57, denied the charges, alleging he was a labor leader in the early days of the 1952 revolution who voluntarily stepped aside to focus the limelight on his elder brother. He claimed that he rallied workers to the support of President Gamal Abdel Nasser during a 1954 power struggle, thus making it possible for Nasser to retain authority.

"I consider myself like the

prophet Job who was tested by God but remained faithful and patient. I am not less than Job," Mr. Sadat reportedly said.

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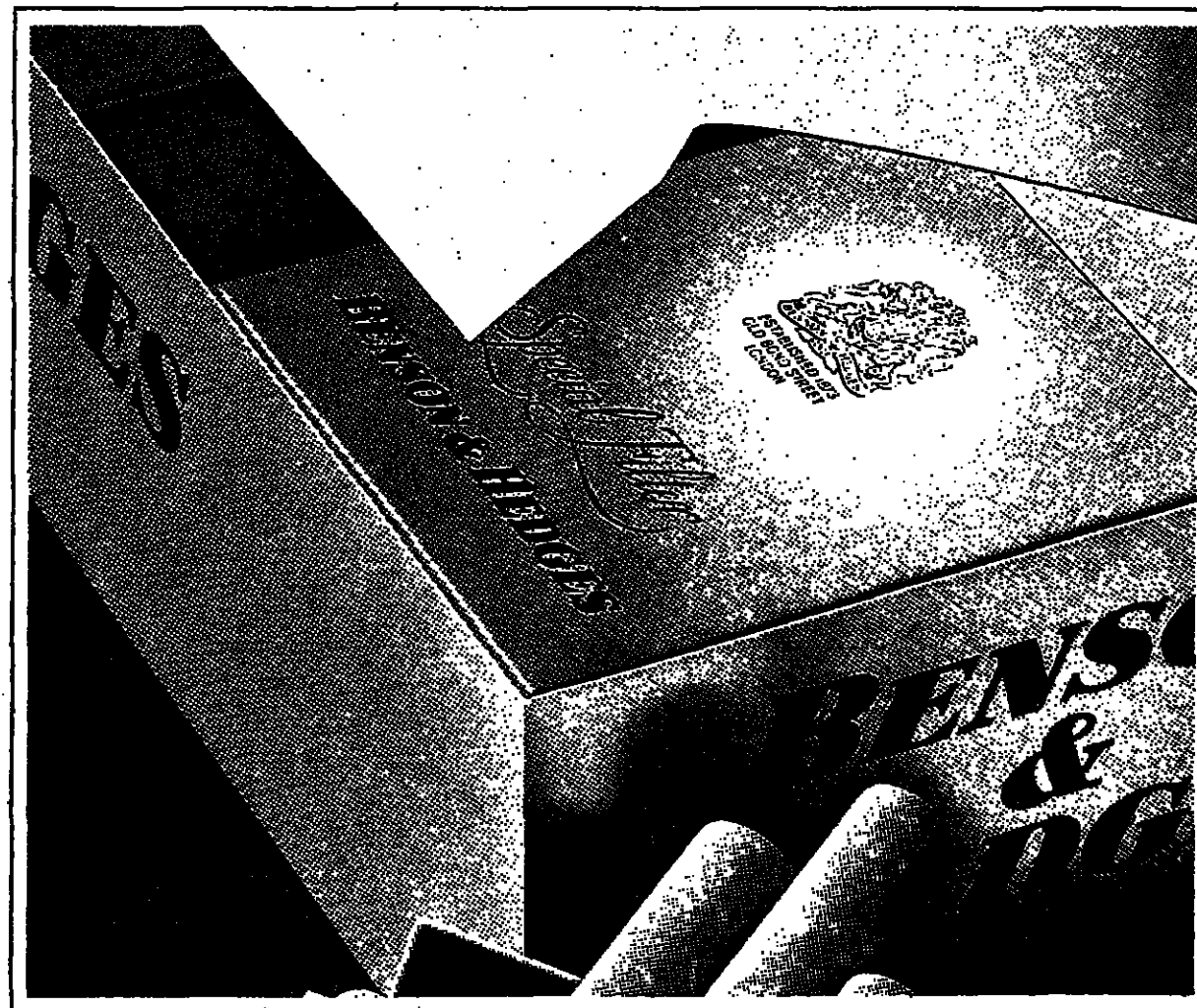
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King Vidor, U.S. Movie Director, Dies at 88

By Peter B. Flint

New York Times Service
NEW YORK — King Vidor, 88, the motion picture director, died Monday of a heart ailment at his ranch in Paso Robles, California. He was a trailblazer and often a rebel, widely respected for his independence, individualism and humanism in a notable directorial career that spanned more than 50 feature movies over 40 years.

His hits ranged from "The Big Parade" in 1925 and "The Champ" in 1931 to "The Citadel" in 1938 and "Duel in the Sun" in 1947.

Besides making many commercial movies, Mr. Vidor defied Hollywood conventions by tackling projects regarded as financially folly. "The Crowd," his 1928 silent masterpiece realistically depicting average people, was first dismissed by Hollywood cynics as an "artistic flop" but eventually it showed a profit.

He fought to make "Hallelujah," an innovative 1929 musical drama with an all-black cast, matching Metro-Goldwyn-Mayer's investment with his own salary. In "Our Daily Bread" in 1934, he depicted the plight of the Depression's unemployed, financing the picture by mortgaging his house and selling everything he could.

He also challenged accepted Hollywood wisdom in affirming

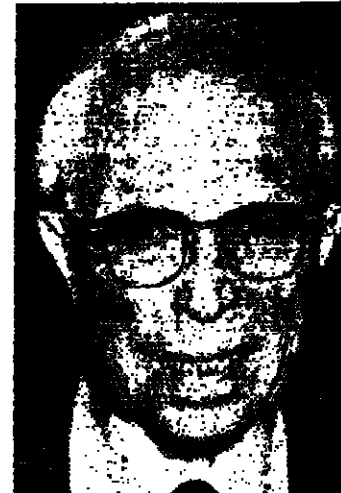
that "no subject is over the heads of an audience if it is told simply, clearly and sincerely."

In 1979, he won a special Oscar from the Academy of Motion Picture Arts and Sciences for achievements over four decades. He had received many other awards and had been nominated for directorial Oscars five times, for "The Crowd," "Hallelujah," "The Champ," "The Citadel" and "War and Peace," but each time the honor had eluded him.

King Wallis Vidor, whose paternal grandfather immigrated from Hungary, was born in Galveston, Texas, on Feb. 8, 1894, the son of Charles Shelton Vidor, a prosperous lumberman, and the former Kate Wallis.

While at Galveston High School, he got a summer job as a ticket taker in the town's first nickelodeon, working for 12 hours a day for \$3.50 a week and running the projector while the operator had meals.

In 1915, he set out for California. He did many stints as an extra and wrote 52 scenarios before he sold one for \$30. He worked as a movie company clerk, a comedy writer, made a dozen two-reelers and, in 1919, directed his first feature, "The Turb in the Road," a sermonizing but well-received movie reflecting his Christian Science beliefs.



King Vidor

The movie led to a studio contract, and Mr. Vidor adapted, produced and directed "The Jack Knife Man," a pastoral tale about an itinerant boatman on the Mississippi River. His other popular early films included "Peg o' My Heart," starring Laurette Taylor.

"The Big Parade" was not only an eloquent paean to peace but also a commercial blockbuster. The film grossed more than \$15 million in a few years, was pivotal in establishing M-G-M as a major

studio and made John Gilbert a star.

Mr. Vidor's scores of credits included "La Bohème" (1926), "Street Scene" (1931), "The Wedding Night" (1933), "The Texas Rangers" (1936), "Stella Dallas" (1937), "Northwest Passage" (1940), "H.M. Fulham, Esq." (1941), "An American Romance" (1944), "The Fountainhead" (1949) and "Ruby Gentry" (1952).

He won many awards at film festivals and from such groups as the Christophers and the Screen Directors Guild, which announced in 1950 the results of a poll of film critics, who listed "The Big Parade" and "The Crowd" among the 10 best directorial achievements of the previous half century.

He was married and divorced three times, to Florence (Arto) Vidor and Eleanor Boardman, both actresses, and to Elizabeth Hill, a scriptwriter.

■ **Other deaths:** Henry (Dick) Merrill, 88, who won the Harmon Trophy for piloting the first commercial flight across the Atlantic, in 1927, Sunday in the town of Lake Elsinore, California.

John Fred (Sheriff) Blake, 83, who played professional baseball for two decades and had a record of 17 wins and 11 losses with the Chicago Cubs in 1928, Sunday in Beckley, West Virginia.

Ethnic French Give Manitoba a Language Test

Court Challenge Threatens to Invalidate Every Law in the Province

By Michael T. Kaufman
New York Times Service

WINNIPEG, Manitoba — In order to regain official status for their mother tongue and reverse what they see as cultural erosion, members of the old but newly assertive French-speaking population of Manitoba have challenged the validity of English-language traffic tickets and in the process have called into question all the laws of this province.

The strategy was first developed by George Forest, 52, an insurance agent, who in 1976 refused to pay a parking ticket, printed only in English, because he felt it violated guarantees made in 1870 when Manitoba became a province and when it had a French-speaking majority.

Last year, Mr. Forest's position was upheld by the Supreme Court of Canada and even though the 40,000 French-speaking Manitobans now rank behind English speakers, Ukrainian speakers, German speakers and Cree speakers as a linguistic group, their language is again officially sanctioned. Consequently, the government is spending hundreds of thousands of dollars to publish official documents and legislative debates in French

and to provide simultaneous translations for official and court proceedings.

While gratified by the victory, leaders of the French minority are rallying behind a second case, which they believe can extend their gains from the chambers of government to communities that until quite recently preserved their language through illegal and clandestine classes.

This case, now pending before Canada's Supreme Court, involves a speeding ticket issued to Roger Bilodeau, a lawyer, who by refusing to pay has broadened the legal challenge raised by Mr. Forest. Essentially, the first case centered on a claim that a law passed in 1890 establishing English as the sole official language illegally contravened the legislation that established Manitoba and which gave official status to French. In its decision, the Canadian Supreme Court upheld the supremacy of the earlier act.

The focus of the Bilodeau case, however, is the province's motor vehicle act and, by implication, every other law enacted here since 1890 and published solely in English.

Fearful of the legal chaos that would result if Mr. Bilodeau's po-

sition were affirmed, the provincial government asked the court last Friday to suspend its deliberations while officials seek a negotiated compromise with the French-speaking group.

Mr. Bilodeau and the major groups in his community have joined in the request for an adjournment and have indicated they really want more assurances for the future use of French rather than a rewriting of past laws.

Premier Howard Pawley said in an interview that the "coming consequences of a Supreme Court decision would be momentous, invalidating all our laws, and forcing them to be re-enacted." He added, however, that the French-speaking community was being very reasonable and that it was not holding the government to ransom but was merely seeking its legal rights.

In the St. Boniface district, where the French speakers have lived for five, six and seven generations, the issue is seen in social rather than legalistic terms.

"What all this means is that we want it established that we are not just another so-called ethnic group," said Gilberte Proteau, former president of the Society of Franco-Manitobans, a community development agency.

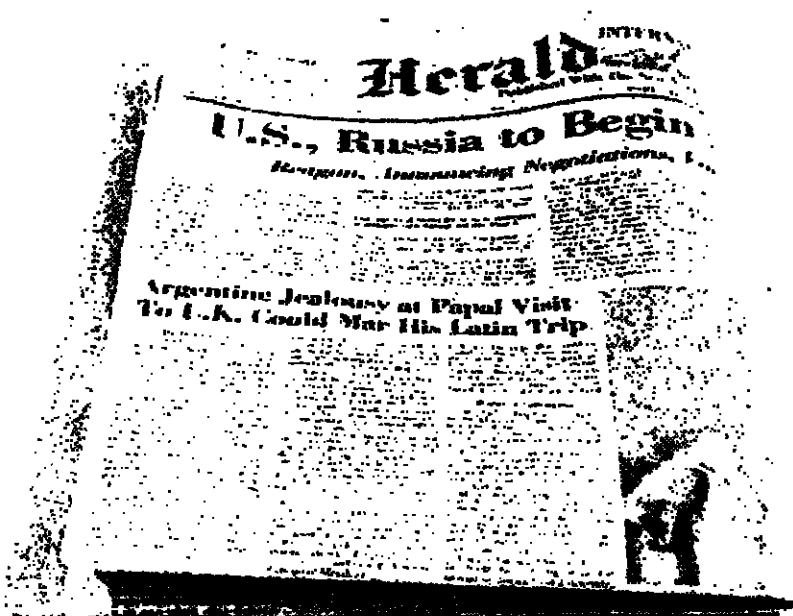
"The other groups that settled here — the Ukrainians, Germans, Jews and Italians — more or less knew what kind of society they were coming to. There was a trade-off in terms of the social contract and they were not seeking to recreate their homelands, though obviously they want to protect their cultures. This was not the case with us or the native peoples. We were here as a nation before there was a Manitoba. I suppose we are a defeated nation, but we are entitled to our historic rights."

Mrs. Proteau, who remembers going to school during and after World War II when all instruction in French in Manitoba schools was illegal, hopes that the recent legal victories will restore self-confidence to a community that has grown frailer each year.

"We are struggling in the battle with assimilation," said Lucienne Loiselle, head of the Franco-Manitoban Cultural Center.

The French-speaking community in Manitoba, the largest concentration in Western Canada, is declining, Mr. Loiselle said. Ten years ago, there were 86,000 people here of French origin, but only 60,000 claimed French as their mother tongue and only 40,000 reported speaking mostly French at home.

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Gravest Atomic Plant Accident Could Kill More Than 100,000, U.S. Study Says

By Milton R. Benjamin

WASHINGTON — A U.S. government study of the potential consequences of accidents at atomic power plants has concluded that the worst-case death toll could exceed 100,000 and damage could top \$300 billion at certain locations, according to documents made available to The Washington Post.

The new estimates come from a study conducted for the Nuclear Regulatory Commission by Sandia National Laboratories and greatly surpass the worst-case estimate of 3,300 deaths within a year of the accident and \$14 billion in property

damage contained in the commission's last safety study, issued in 1975.

A sophisticated computer model, called CRAC, used what is said to be the most comprehensive meteorological, demographic and economic data ever assembled to calculate, for the first time, a wide variety of possible accident consequences. The data was compiled for each of the 80 sites in the United States where atomic power plants are operating or are under construction.

The worst-case scenario postulated in the study is based on what the commission calls a Group 1 accident, one involving severe nuclear

core damage, melting of uranium fuel, essential failure of all safety systems and a major breach of the reactor's containment resulting in a large release of radioactivity into the atmosphere.

The NRC staff has estimated the probability of such an accident — which would be far more severe than the nation's most serious accident, at the Three Mile Island plant near Harrisburg, Pennsylvania, in 1979 — as one in 100,000 reactor years.

Given the number of atomic power plants operating or planned, this would mean there is approximately a 2 percent chance of such

an accident occurring in the United States before the year 2000.

Even if such an accident occurred, the computer model determined several weather and evacuation scenarios that could result in death and damage tolls far lower than the worst-case estimate.

For such an accident to produce the worst-case death and damage toll calculated by the computer study, the draft report said a Group 1 accident generally would have to be followed by a "rainout of the radioactive plume" or cloud, "onto a population center." The report termed that combination of events improbable.

Nevertheless, many experts view the commission's efforts to estimate the probability of accidents, particularly when dealing with complex facilities such as nuclear reactors, as inexact at best. Several members of the panel's Advisory Committee on Reactor Safeguards recently called use of such a system to predict likelihood of a core meltdown as a "sham."

The computer study found that the highest death toll would occur if the worst-case accident took place at the Salem, New Jersey, nuclear power plant on the Delaware River. Such an accident, according to the study, could result

in 102,000 "early" deaths, within a year of the accident.

The area in which deaths would occur from a worst-case accident at the Salem plant, according to the study, could include Wilmington, Delaware, 20 miles (32 kilometers) north of the plant.

The study found the greatest damage would occur if a worst-case accident took place at the Indian Point 1 reactor, 25 miles north of New York City on the Hudson River. Such an accident, the study found, could result in \$314 billion in damage.

The area in which early deaths would occur, the study found, would extend 17.5 miles from Indian Point, but radiation-related injuries could occur within a 50-mile radius of the reactor.

More than 17 million people live within 50 miles of the Indian Point plant. As many as 56,600 early deaths could occur in a worst-case accident at that reactor, the study found.

While the draft report on the two-year Sandia study notes that it examined the possibility of worst-case accidents and accidents of lesser magnitude that occurred under weather conditions that diminished the consequences, the version obtained by The Post does not contain the worst-case figures.

The NRC is expected to release this version.

Representative Edward J. Markey, a Massachusetts Democrat who heads the House Interior and Insular Affairs subcommittee on oversight and investigations, obtained the full results and a companion report on the financial consequences of nuclear accidents. Mr. Markey made this information available to The Post.

The study demonstrated for the first time how greatly the consequences of an accident could vary depending on wind, rain, emergency response planning and population distribution around existing plants.

The most important factor in determining the toll from a nuclear

accident, the draft report makes clear, is whether people living around the plant are clustered in towns and whether the plant is within 25 miles of a major city.

"Irrespective of size, population centers beyond 25 miles do not contribute to early fatalities," the report said. In some cases, it said, the maximum distance from the plant at which there would be early fatalities might be as little as 13 miles, depending on meteorological conditions.

The report said that, if there are towns or cities 10 to 20 miles from atomic plants, the number of early fatalities in a worst-case accident might increase substantially and that the number of deaths even under more favorable conditions

could be twice as high as it would be if the population were more spread out.

A second major finding, according to the study, was that summary evacuation of residents from within a 10-mile radius of atomic plants could significantly reduce the number of early deaths resulting from most accidents.

However, current evacuation plans may not appreciably affect early death toll estimates for most worst-case accidents, the report said, since these involve "rainout of radioactivity from the plume onto cities located more than 10 miles from the reactor" and federal laws now require evacuation zones of only 10 miles around each reactor site.

Maker, Operator Trade Accusations As Three Mile Island Trial Opens

By Frank J. Priol

NEW YORK — Attorneys for the builder of the reactor damaged in the accident in 1979 at the Three Mile Island nuclear plant in Pennsylvania and the plant's operator traded accusations Monday about which was to blame for the nation's worst commercial nuclear accident.

Robert B. Fiske Jr., an attorney for Babcock & Wilcox, which built the reactor, accused the plant's operator, the General Public Utilities Corp., of "indulging in reckless" and "deliberate and willful misconduct."

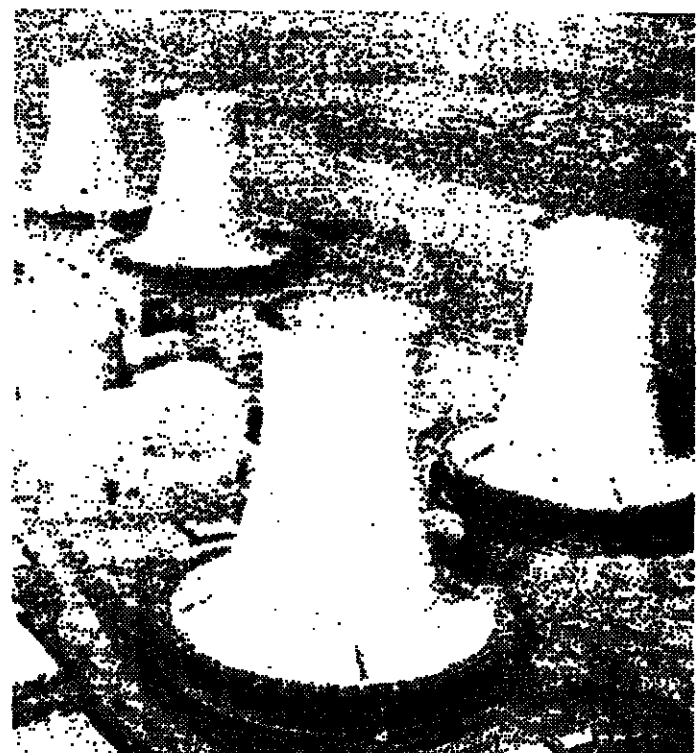
His remarks came in the opening day of a nonjury trial in Federal District Court here to determine responsibility for the billion-dollar accident. The suit was filed by the utility company, which contends that Babcock & Wilcox is to blame and is seeking \$4 billion in damages.

David Klingsberg, representing General Public Utilities, asserted that the manufacturer had failed to update emergency operational procedures for its reactors nationwide, which he called "a frightening episode of corporate misconduct."

In his response, Mr. Fiske described what he called a "pervasive pattern of appalling indifference on the part of General Public Utilities management," and accused the company of falsifying reports about steam leakage in the reactor system for several weeks before the accident because it feared losing money if the reactor was shut down.

He said the company's reactor operators "didn't have even a fundamental understanding of how a nuclear reactor works."

Each side accused the other of having made or covered up serious errors related to the accident in an effort to save money. Mr. Fiske said the utility should have shut down the No. 2 reactor, which was later destroyed in the accident, to repair the leaking valves. He said they filed false reports on the leak-



Aerial view of the Three Mile Island nuclear power plant.

age because the reactor's twin was closed for repairs. Having both closed would have cost the company as much as \$500,000 a day, he said.

Mr. Klingsberg accused Babcock & Wilcox of withholding vital information from General Public Utilities and the operators of other Babcock-built reactors because it might have caused several of the reactors to be shut down.

A key contention by Mr. Klingsberg is that the accident at Three Mile Island, which involved a partial uncovering of the reactor core leading to the release of dangerous amounts of radioactivity, was entirely the fault of Babcock because the company had neglected to inform their clients that their own

engineers had encountered an almost identical emergency a year and a half earlier and had devised ways to prevent it.

High Court to Rule on Stress

The Supreme Court agreed Monday to decide whether "psychological stress" on the community is one of the factors that the Nuclear Regulatory Commission must weigh before deciding whether to permit the Metropolitan Edison Co. to restart the undamaged No. 1 unit at its Three Mile Island nuclear power plant. The New York Times reported from Washington.

U.S. Boycott Over Anti-Israel Vote Threatens Atomic Energy Group

By Don Cook

VIENNA — For 25 years, ever since its creation under President Eisenhower's Atoms for Peace initiative, the International Atomic Energy Agency has been something of a favorite child of the United States. But today it is something of an orphan, its future in doubt.

The United States walked out of the agency's annual general conference Sept. 24 when the membership voted to refuse the credentials of Israel, a member of the agency from the outset.

Washington then announced that it would withhold the \$8.5 million still to be paid toward its 1982 budget contribution to the agency, and the Reagan administration has since announced that it will review its future relations with the agency.

"Obviously," a high State Department official said the other day, "a reappraisal of an agency that plays such an important role in U.S. nonproliferation policy, with its international nuclear inspection and safeguard system, an agency that we were instrumental in establishing in the first place, is a very serious matter."

Other diplomats in Vienna, where the agency is situated, say that if the U.S. boycott lasts for a considerable length of time — as was the case of the two-year American withdrawal from the International Labor Organization, when Jimmy Carter was president — then it will be difficult for the agency to survive.

There is real concern that the Israeli issue, coupled with the Reagan administration's hard-line foreign policy, could prolong the walkout and cause irreparable damage to the agency.

The agency secretariat foresees no real budget crisis until well into next year. Still, the agency has imposed almost a total freeze on hiring additional personnel and on ordering equipment for its technical assistance and research programs.

"If we do not know where we stand with the Americans by next March, then we will be in real trouble," a high-ranking member of the secretariat said.

The U.S. reaction to the vote in Vienna was instrumental in heading off two later moves to reject Israeli credentials — at a meeting of the International Telecommunications Union in Kenya and at the UN General Assembly in New York.

U.S. officials acknowledge that the American walkout reflects a deeper disenchantment with the agency, a feeling that goes back to the Carter administration. When the agency was founded, its membership consisted almost exclusively of industrial countries with direct involvement in the development of nuclear energy for peaceful uses, particularly in the development of nuclear power.

Many of the agency's members are now Third World countries that have little or no technical or economic interest in nuclear energy but a considerable political interest in acquiring nuclear technology and technical assistance.

Kenneth Davis, U.S. deputy secretary of energy and head of the U.S. delegation, emphasized that point in his statement announcing the U.S. withdrawal after the vote against Israel.

"The degree to which IAEA has now become politicized is completely unacceptable to my government," he said. "This is an agency which was founded as a technical

body to assist in efforts to make the benefits of peaceful nuclear energy available to all under safeguards which would assure the world as to the peaceful use of that energy. Instead, it has become a forum for debating political issues. This pattern of abusing the UN system to carry on political vendettas is corrosively dangerous. The politicization of specialized international organizations such as IAEA must cease."

An independent observer in Vienna commented the other day, "The Americans in a way really created the problem for themselves when they began urging Third World nations to join the IAEA, even though their practical interest in nuclear reactors might be nil. There was a tacit bargain implied. If developing countries would join IAEA, sign the nonproliferation treaty and guarantee to place any nuclear installations under IAEA controls, then the door would be open to nuclear technical assistance."

"This was perfectly laudable and understandable, but it was also inevitable that Third World countries would bring with them their own demands and political attitudes toward how the agency was run by the 'big boys' of the industrial world."

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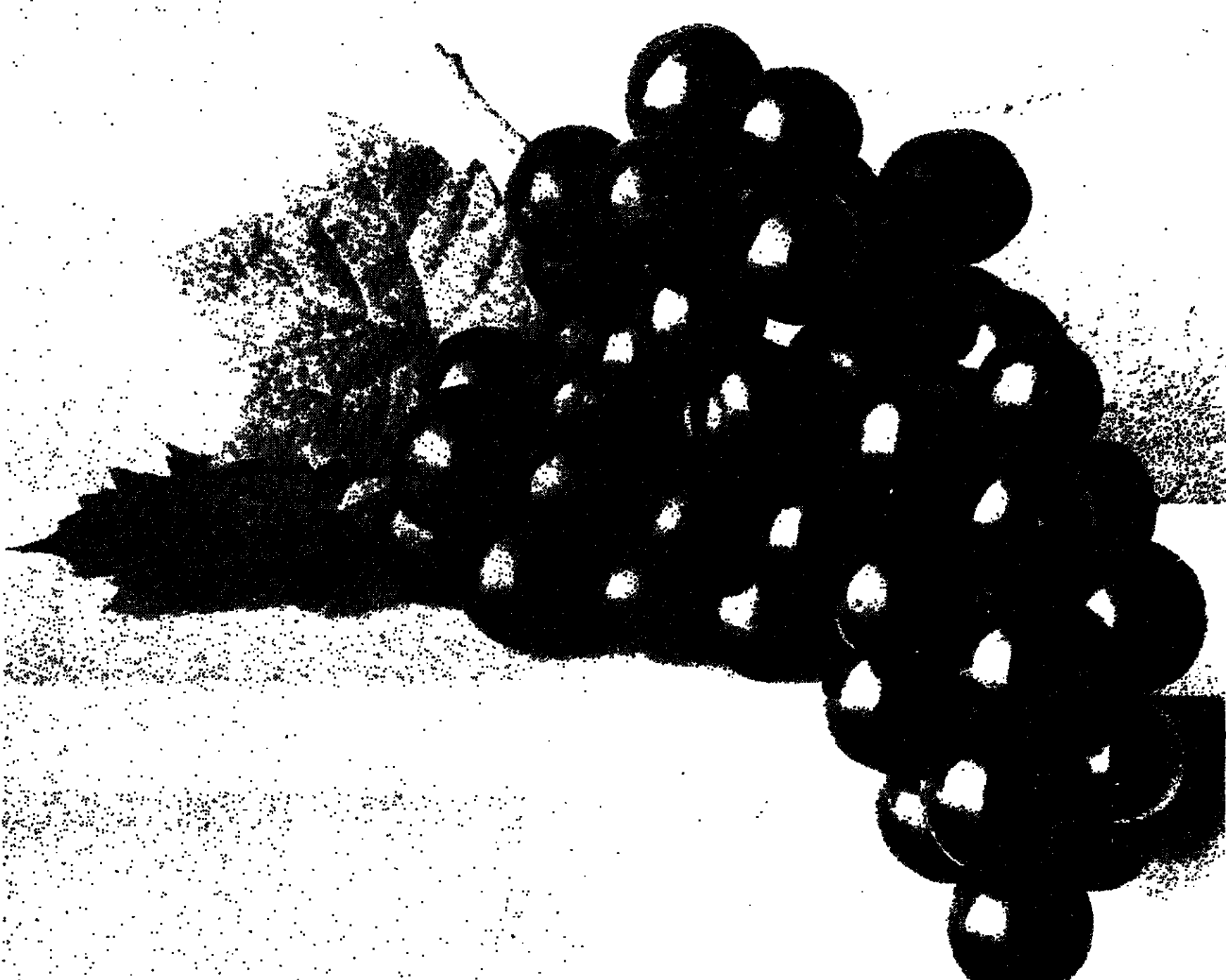
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Herald Tribune

Apartheid and the IMF

With its continued commitment to apartheid, South Africa makes itself a tempting target for pressure from groups offended by official racism. Thus its application for a loan from the International Monetary Fund has stirred objections at the United Nations and in the U.S. Congress. Rejection of the loan on political grounds would mean that the fund could no longer serve its global purpose — to help any member in trouble. Approval with proper strings attached could help lift the shroud of South African injustice.

The purpose of the IMF is to help member countries when they have balance-of-payments problems. Together the monetary fund and a would-be borrower identify the sources of the problem, and the fund prescribes steps required to correct it. Politics and social issues are theoretically ignored, although it would be naive to deny that they are integral to any country's economy.

South Africa's immediate problem is not unusual: Export earnings have collapsed, inflation rates and the economy is stagnating. The price of gold, the principal export, has plunged from more than \$800 an ounce two years ago to the mid-\$400s today. Prices are also weaker for other exports, including diamonds and sugar. The corn crop was poor.

As a member in good standing, South Africa is entitled to draw on the fund. The proposed borrowing would be \$1.1 billion. Approval for two-thirds of the amount, because of the drop in export earnings, is virtually automatic. The IMF imposes no conditions on such loans, on the assumption that the situation will correct itself. But the other one-third, traceable to internal mismanagement, is subject to normal IMF scrutiny.

Pressuring El Salvador

A terrible war continues in El Salvador, but talk of peace is in the air. Earlier this fall the outlook was bullish. More recently it has been the other way. What is going on?

The struggle in El Salvador may have entered its next-to-last stage. The last stage, if it comes, will require government and guerrillas to try to reconcile their differences. Meanwhile, both sides must sort themselves out. There is some evidence that the guerrillas have been trying to position themselves for a political settlement. Just such an effort is now apparent on the government side.

A struggle for power is being waged between the leading government elements, both of them military. One, led by Defense Minister José Guillermo García, accepts reform and some kind of "dialogue" with the left. The other, led by Roberto D'Aubuisson, president of the constituent assembly, represents the feudal right and opposes any reaching out to the left. The tug between them has been especially active in recent months.

It is a Salvadoran argument, but inevitably the United States is part of it by virtue of the commitment two administrations have made to democratic reform and anti-communism. In the Reagan period it has sometimes seemed to Salvadorans that the United States

Other Opinion

In India, the 'Developed Man'

One of the main objectives of government schemes is to encourage self-reliance. [But] nothing frightens the vested interests in the villages more than when they see what we might call the Developed Man. He is the person who answers back, asks difficult questions and points out the flaws in the system. He names the corrupt officials and can sometimes force the system to do the very thing it only pretends to want — take some action.

Although he has never been to school, he is living proof of how rural development can work. But if he passes the village headman he is not likely to get off his bike, as a member of a lower caste is supposed to; nor will he sit on the floor when discussing a problem with members of a higher caste.

These may seem like small acts of defiance, but they take great courage because the dominant minority in the village will go to extraordinary lengths to stifle signs of self-reliance in their inferiors. If a widow builds a toilet next to her house, this, too, will be treated as an act of defiance, and pressure will be put on her to close it down immediately. The headman and other respected village families do not have a toilet, but use the field. The widow's toilet is not "development" but an insult to her superiors.

The most effective method the rural rich have of clinging to their power is to make the poor ever more dependent on government and petty government officials. For almost everything that concerns the poor villager and his chances of improving his living conditions he will have to turn to the local ruling order. The very idea of the rural poor's participation in rural development programs is a threat to the village government functionaries, [who may] not be able to continue their corrupt practices or protect one another.

The tragedy of India's rural development schemes is that instead of welcoming development of the village community's resources, many Indians regard such improvements as a threat to the social order.

What has to be faced is that every loan, hand pump, pre-primary school, adult education center and dispensary that the government helps bring to the community has political implications. You cannot help the poor without involving them in their development. Their involvement changes their attitudes to how they are governed. Those who claim that you can have development without changing the attitudes of the poor do not know what they are talking about.

The dilemma for people working in rural development is not whether or not development must also mean changing the political attitudes of those who benefit from it. The dilemma, and it is not one that should concern only the development worker, is where to draw the line and who should draw it.

—Bunker Roy, a rural development worker in India, writing in *The Guardian* (London).

Risking to Send Reagan

A Republican speaker unwittingly underlined the irrelevance of Ronald Reagan's 1982 election campaigning when he told a rally that the president's overnight visit in Las Vegas was a boon to the recession-crippled tourist industry. Mr. Reagan had not traversed the continent to plug the fantasy town's entertainment lures, but it was not clear to Nevada Republicans just why he visited them for the second time in three weeks.

In fact, the president was jet-setting the Rocky Mountain West in his final two days of 1982 campaigning because his advisers could find no other states where he was welcome and where they would risk sending him.

—Syndicated columnist Rowland Evans and Robert Novak (Washington).

A Historian of Imperial Decline Looks at America

By Paul Kennedy

NORWICH, England — The philosopher George Santayana observed many years ago that those who do not know the past are condemned to repeat it.

He did not, of course, mean that history repeats itself in exactly the same form as a chemistry experiment can be repeated. Between one age and the next, the people, places and events change. But he did mean that those who had no knowledge of past follies and disasters would have little way of appreciating how to avoid future calamities. And he implied that if politicians and their publics had no idea of the contours of history, and of the larger factors that influence change, they would be ill-equipped to handle current problems.

Santayana's view is clearly not shared by the administration of President Ronald Reagan — any more than by those that preceded it.

During the great debate that has been taking place about America's relative economic and military decline since the 1960s, the historical dimension has been seriously neglected. Neither Mr. Reagan's belief in "the American way of life," nor Jimmy Carter's pursuit of idealistic but flawed policies, nor the array of economic theories and political programs suggested by right and left has shown awareness that the problems of the United States are the sort that earlier great powers also faced.

The history of world empires, looking at the current foundering in external and internal affairs, is strongly tempted to say, "We have seen it all before."

It may seem curious to charge recent U.S. presidents and their staffs with lacking a sense of history. All have been aware of their country's heritage, national heroes and struggles, contributions to world society, culture and democracy. Their very existence in the White House reeks of historical consciousness.

Yet such a background actually hinders an objective analysis of the present U.S. dilemma. The formative years of Presidents Reagan,

The past suggests that military might and global influence always need to rest upon strong economic foundations.

hanced national pride that, they believe, brought the United States to the pinnacle of world power in the first place.

Even the fears being expressed about the enormous rearmament program of the Reagan administration can be answered by reference to history: Surely, it is the reality, it is not beyond the power of the United States to raise its defense spending from the present 5 percent of GNP to 7 or 8 percent, when one recalls that it allocated 45 percent of GNP to armaments in 1944 and 10.5 percent as late as 1955?

Every one of the great world powers of the past 400 years — Imperial Spain, France from Louis XIV to the Emperor Napoleon, the British Empire — had those who argued in the same way when their countries showed signs of decline. Each of those nations had in turn risen to and fallen from global pre-eminence.

Historians have traced that "trajectory" of power; they have explained the specific economic and technological and geopolitical causes

for the rise of those nations; and they have shown how those "superpowers" began to decline when circumstances changed. Why can't the same exercise be done to throw light upon the problems in American policy today?

To begin with, let us admit that the steady rise of America to world power was probably due much less to the Protestant ethic of hard work and clean living than to a cluster of favorable geographical and technical factors.

Protected by the Atlantic Ocean — and the Royal Navy — from serious external threat, America could divert its energies from swords

half the free world's manufacturing capacity; it had heavily invested in new plants, and it managed to channel its prodigious wartime energies into impressive peacetime growth during the years following. Most important of all, it enjoyed a near-monopoly in domestic and in many foreign markets, since its former commercial rivals had been ruined by the war.

To find an equivalent position you have to search back in history to Britain after 1815; it had just then completed its triumph over Napoleon, its Industrial Revolution was taking off, its rivals were exhausted economically and it had a monopoly of world markets. This was the age of "Pax Britannica," just as some people have called the years after 1945 the age of "Pax Americana."

It was in those later favorable circumstances, one ought to repeat, that today's American leaders grew to assume it was natural for their country to be top dog. It was in such circumstances, too, that the nation could bear heavy defense expenditures during the early stages of the Cold War without suffering too greatly.

But the situation in the 80s is quite different from that of 20 or 30 years ago. For reasons that economists and economic historians quarrel over, the long-term secular growth of the U.S. economy has been slowing down, while that of other countries has increased faster. The rate of increase has been steadily dropping, from around 3 percent a year between 1960 and 1973 to about 1 percent a year since then.

America's steel, automobile, textile and electronics industries are in decline and failing to match foreign competition. Its computer industry is being overtaken in some sectors by Japan, and there are indications that this may be behind its aerospace industry. It is well behind in robotics. Its rates of investment in productive industry are lower than in many other industrial countries. Plans is thus much older.

In addition, the disasters war in Vietnam, the great rise in social expenditures since Lyndon Johnson's time and the continued failure of U.S. governments to balance their budgets have combined to produce inflation and weaken the purchasing power of the dollar abroad — which can only be countered by offering high interest rates, thus choking industrial recovery.

Without making too much of the comparison, there are signs that America is succumbing to the so-called "British disease," almost a century after Britain began to lose its place as the world's workshop. Look at the statistical trends. After 1945 the United States had half of the free world's GNP; now it has about 30 percent, as by the end of one century the figure will probably be 20 percent. In the mid-19th century Britain possessed half of the world's manufacturing production; by 1870 it was down to 32 percent and by 1910 to 15 percent.

It was this erosion of an industrial lead that was the long-term cause of the end of the "Pax Britannica," just as it is the poor U.S. economic performance in the past two decades that ultimately explains the eclipse of the "Pax Americana." Military might and global influence always need to rest upon strong economic foundations. When the latter weaken, so, too, does our real power in the world.

There are no conclusions to draw from all this. The first is that, on the whole, the American decline is perfectly "natural." Every previous world power enjoyed a period when its influence was at its height, before it slowly waned. Why should we imagine that the United States could escape from such a pattern?

When Imperial Spain was declining in the 17th century, there was no lack of pressure groups claiming to have the remedy. Reduce tax levels, some argued. Cut the enormous costs of the armed forces and the government, said others. Make industry more competitive and eliminate restrictions, said a third group. Appeal to the people's patriotic spirit and call for greater sacrifices, insisted the military.

Exactly the same thing occurred in England at the turn of this century, as people pondered the long-term decline of the British Empire and sought ways to prevent it. Now this quite natural process is happening in America.

Various political groups claim they can restore the country to its former position. The lesson of history suggests that they will fail.

The second conclusion is that the simple solution of restoring global power by spending many billions on arms is no solution. It will strengthen the strategic posture in the short term and benefit those firms receiving Pentagon contracts. But a heavy rearmament program imposed on a shrinking industrial base, will divert funds to unproductive uses.

Even at the mid-70s low point in military spending, the United States devoted 28 percent of its research and development effort to defense, compared with West Germany's 7 percent and Japan's 4 percent. The present arms boom will increase that trend, just as it will drain more and more engineers, physicists, mathematicians and other scientists from commercial industry into defense-related fields.

And enormous federal deficits over the next few years will weaken U.S. credit, keeping interest rates high and hurting domestic industry. The short-term benefits of having larger defense forces may be undermined by the long-term effects of a less competitive economy.

The writer is professor of history at the University of East Anglia. His books include "The Rise and Fall of British Naval Mastery."

Is History a News Source?

No, Playing Historian Is Not the Journalist's Job

By Narayanan Balakrishnan

SINGAPORE — Every professional has his temptations. In journalism the temptation is to play historian.

It's 1979 and Iraq is invading Iran. Remind your readers (as a New York Times writer did) that the Arab aim has always been to subdue the Persians since the victory of Qadisiya in A.D. 637. James Reston branded the war as one of the "ancient struggles."

Next Iran is invading Iraq. So, tell your readers (as *The Economist* did in its July 14 issue) that it is the revenge for Karbala. The magazine tells us that "the historical tragedy of Shi'ism was the massacre in A.D. 680 of the forces of Hussein, the prophet's grandson, at Karbala, 50 miles south of Baghdad. Iran's Shi'as are now getting their chance at revenge."

There is hardly a current war that has not been "historically" explained. You may think that China and Vietnam have been fighting only in the past three years, but journalists will quickly correct you and point out that Vietnamese kings have been fighting the Middle Kingdom for about 1,000 years.

The superficial reader may think that the Chinese-Soviet conflict is ideological, or a border dispute, but seasoned foreign correspondents will tell you the men in

the Kremlin are still haunted by memories of Genghis Khan and the invading "yellow hordes." But such propaganda is to be expected from the antagonists, and journalists should know better than to repeat it as if it were historical truth.

The politician's attitude toward history was probably summed up by Bismarck a century ago. He was on a relentless quest to build a Prussian empire. Asked to explain why he was invading a small kingdom, he is said to have replied that it was his job to carry out the invasion and it was the job of the professors in Heidelberg to explain why for historical reasons, it had to be done.

The same journalists who drag out forgotten battles to explain current ones seem reticent when it comes to explaining peace. Why is it that the French are united with the English in the European Community, and not plotting revenge for the battle of Waterloo?

If historical memories are so important, how is one to explain that the French and the Germans are allied against Moscow? And that Britain and its former colony, the United States, can now have a "special relationship"?

It is no accident that historical generalizations are made more often about the developing coun-

tries than about Europe. It is not that the French and the Germans have a special gift for forgetting the past, whereas the Sunnis and Shi'as cannot forget grudges from 12 centuries ago. Few foreign correspondents and fewer Western readers are aware that the history of Asia is also a many-headed hydra, like the history of Europe, and that it can be used selectively to justify almost anything.

That is why the Iran-Iraq conflict is more likely to be explained in terms of Shia-Sunni conflict than as the ideological, economic and territorial dispute that it is, whereas the French-German conflict is explained, say, in terms of European Community agricultural policy, without recourse to the memory of two world wars.

By linking their news to ancient events, journalists hope to transcend the limitations of their craft, much like new immigrants who construct elaborate family trees to embellish their ancestry.

Perhaps it will be better for all concerned when the next war comes around if journalists confine themselves to telling us who is selling the arms to the antagonists, what the ideological differences between them are and what economic issues are at stake.

Narayanan Balakrishnan writes for *The Singapore Monitor*.

Yes, Cracking History's Codes Is Good Journalism

By Edwin M. Yoder

WASHINGTON — Narayanan Balakrishnan complains about the siltier historical "explanations" that journalists have offered for recent violent eruptions. He charges, with some justice, that we are so light-headed as to be easily flattered by the thought that journalism is, in one current phrase, "the first rough draft of history."

His scolding hits me in a sensitive spot. Still, I think his advice to lay off history is pernicious.

Granted, it is silly and pretentious to "explain" a current conflict by dredging up a forgotten grudge, dynastic or religious, that is centuries old. The first requirement for anyone who uses history to explain the present is a discriminating sense of what is pertinent.

Consider one of Mr. Balakrish-

nan's examples: Foreign correspondents tell you the men in the Kremlin are still haunted by memories of Genghis Khan, the invading "yellow hordes." Well, you can leave Genghis Khan out of that picture, but it helps to recall history of more recent vintage. For instance, that Stalin backed Chiang Kai-shek.

As late as 1945, at Yalta, Stalin was still "betraying" his Marxist kinsmen in China for the sake of the wartime alliance with the United States, Chiang's principal patron. Since the leaders of the Chinese revolution have long and exacting memories, they doubtless recalled Stalin's disloyalty, even in the brief period of solidarity in the 1950s. In that light, the schism

that soon followed should have come as no great surprise.

Few turbulent struggles on Earth today are not rooted in the past. From Northern Ireland to Lebanon, vectors of historical force play on those struggles. It is neither good journalism nor good history to forget it.

How is one to explain that the French and the Germans are now allies against Moscow? That is the wrong question. Better to ask how old enemies became new friends — but the answer is the same. It is precisely the strength of historical memories (of butchery in the trenches of 1916, of the Blitzkrieg of 1940) that animated Jean Monnet, Konrad Adenauer, Charles de Gaulle and the other architects of

the European community. Historical memories do not always move men negatively.

In any event, good historians know that those memories, the bloodstream of events, are always thicker than the watery ideologies and doctrines in terms of which unhistorical people interpret the world and its conflicts.

Mr. Balakrishnan's argument, superficially plausible and entertaining, is shallow beneath. That journalists sometimes embellish poor reporting with bad history is no argument against historical awareness — in journalism or politics. Even when they are unconscious of it, nations possess a historical coding. The task of journalists is to break the code, not to pretend it isn't there.

The Washington Post.

There's No End to the Campaigning

By David S. Broder

WASHINGTON — Nice as it is to wake up in the morning and realize the election is over, there is always another one to come. These words are written before the results of the midterm voting become known — but not before some politicians move into position for 1984.

Anticipating a landslide re-election victory on Tuesday, Sen. John Heinz of Pennsylvania let reporters know that he was available in Washington to discuss his campaign and the lessons it might hold for his party.

In case of half a dozen Republicans who want to be ready for 1984 in case President Reagan decides not to seek a second term. If some of the others were not holding similar sessions, it was only because they were so worn-out from their off-year political travels that they could barely talk.

Senators Bob Dole and Howard Baker — both presidential aspirants in 1980 and, presumably, in 1984 if Mr. Reagan decides — were out campaigning for fellow Republicans' almost every day in October. So was Rep. Jack Kemp of New York.

The Republicans' campaign traveler was Vice President George Bush, who stomped almost nonstop from Labor Day to Election Day. I was with him on a day when his main stops were Cape Girardeau, Missouri, and San Francisco. Last week, I noticed, he did the always enchanting run from Jackson, Mississippi, to Boise, Idaho. No wonder there were days when he seemed a bit punchy.

If Mr. Bush was hearing footsteps on his weird trail, they were probably those of his predecessor, former Vice

President Walter F. Mondale, who was the champion traveler on the Democratic circuit. Mr. Mondale traveled himself into the grandiosity of all head colds, with the result that when he was seen on one of the network interview programs late in the campaign, he let the whole country watch a 30-minute demonstration of his nose-blowing technique.

But nobody ever said there was a lot of dignity in running for president. Sen. Gary Hart of Colorado found that out when he was elected to a light plane with a gubernatorial candidate who had a notably queasy stomach and a fear of flying.

The pursuit of the golden dream impelled Sen. Edward M. Kennedy of Massachusetts to read nursery rhymes in a Chicago play school and sent Sen. John Glenn to ride down the sweltering streets of Sylvestre, Georgia, as grand marshal of the Peach Festival Parade.

This is a kind of insane drill to which America subjects the presidential hopefuls. But in theory, at least, they can use the off-year campaigning to hone their skills and prepare for the rigorous tests still to come.

There are two or three lessons to be learned from the 1982 campaign that may be useful for 1984. This year, once again, demonstrated the value of debates as a forum for exposing the candidates' positions and personalities. I was particularly impressed with the series of weekly Monday night debates, carried on public television, in the Connecticut Senate

race, each lasting an hour and focusing on a particular policy area.

As the presidential candidates make their formal announcements, we in the press ought to try to get them committed to taking part in such a series of debates as long as they are in the race, and particularly if they make it to the general election. We should not go through the fancy game of evasions that delayed the presidential debate until the final week of the 1980 campaign.

In several states I visited, notably California and Illinois, debates were sharpened by eliminating the paid-of reporters and letting the candidates question each other directly. It is better theater that way — and the issues were more sharply defined.

On the other hand, 1982 has been a year of gross distortions in political advertising, with an unhealthy emphasis on besmirching the opponent. The most effective way of curbing this sludge in 1984 would be to get the presidential candidates to promise in advance that they will screen each new commercial for the press on the day it goes on the air, and thereby allow the opposition to respond before the smear sticks.

The Washington Post.

Letters intended for publication should be addressed to the editor and contain the writer's signature, name and address. Brief letters receive priority, and letters may be abridged. We cannot acknowledge all letters, but we value the views of the readers who submit them.

LETTERS TO THE EDITOR

Debating Palestine

Regarding "Too Many Attacks on Jews in Palestine" (HT, Oct. 14): I was pleased to read Gaila Cohen's well argued defense of Israel's actions, and the equally eloquent rejoinder by Mohammed Tarbush (HT, Oct. 25) urging an open and reasoned dialogue between the Palestinians and Israelis.

It is all too seldom that one comes across such constructive discussion of the fundamental issues in this painful, crucial debate. I hope that your pages will continue to carry pieces of this nature. We need more cogent presentations along these lines and fewer invectives such as Katie Clarke's rebash of past treacheries (Letters, Oct. 27), which substitutes bitterness for rationality and anecdote for argument.

ROBERT S. RIVKIN, London.

The Nobel Prizes

Regarding the editorial "A Draft Nobel Address" (HT, Oct. 21): I fear that this editorial reflects an unrealistic stereotype which is often thrust upon academicians, especially scientists. Although the editorial makes some excellent secondary points, its overall impression mirrors a public desire that we (I am a physicist) not "labor long years in the laboratory to win prizes," that "the disinterested pursuit of knowledge" should be our primary concern.

Why should academic ambition alone be so idealistic? Anybody who

has ever put an idea on paper without the ultimate goal of somehow reaping benefit from it is a blockhead. Yet the editorial indicates that more money than most of us can earn in several years should be unhesitatingly refused for the sake of "principles." Whatever the founding principles of a Nobel Prize, it has only one modern meaning: It is the pinnacle of achievement for academic endeavor. How ludicrous would a similar draft address sound at other award ceremonies, say, the Olympic Games?

I resent any philosophy that denies me the right to profit from my ideas as might any other person in his work. Neither do altruistic arguments justify unfair labor practices that we endure, or the poverty that accompanies long years of schooling, or the constant humiliation of needing to beg from funding agencies.

I know that my own humble efforts will never earn a Nobel Prize — but who would deny me of my dreams?

JEFFREY H. BUTLER, University of Oxford.

Reagan and Jobs

Hedrick Smith, in "Analysis Call Turnout of Undecided Crucial" (HT, Oct. 23) detected no wave of protest against President Reagan during the election campaign. My husband has lost his job in the construction machinery business due to Mr. Reagan's diversion of funds from the economy to the building and stockpiling of weapons. People without jobs have little to fear from communism.

C. SIMPSON, Dortmund, West Germany.

NOV. 3: FROM OUR PAGES 75 AND 50 YEARS AGO

1907: Interest in the Kaiser

LONDON — Lloyds Weekly News editorially remarks that exceptional interest attaches to the forthcoming visit of the kaiser. "Though the policy of that remarkable sovereign has seemed at times to be directly antagonistic to British aims, the English people have never forgotten the devotion to his grandmother Queen Victoria, and the hurried visit he paid her bedside when she lay dying. His own strenuous and potent personality also impresses them. They have further the belief that his journey to our shores at the present time indicates the beginning of a complete understanding between the British and German Empires, and is an assurance of peaceful and mutually helpful relationship."

1932: Jobless Riot in London

LONDON — Although an organized march of the unemployed on the Houses of Parliament was broken up by police action, rioting broke out in central London. Many windows were broken and heads cracked and several arrests made, but the disturbances were sporadic and undirected. The disturbing element was composed largely of youths from the London slums, whose tactics consisted of harassing the police but seldom of engaging in stand-up fights. Out-of-town hunger marchers were conspicuous by their absence. Authorities struck at the central direction of the unemployed movement by arresting its head, Wal Hannington, charging him with trying to cause disaffection among the police.

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Democracy in Peru Faces Crucial Test

Weak Economy, Political Violence Are Chipping Away at Optimism

By Jackson Diehl
Washington Post Service

LIMA — The crowds still chanted "Architect! Architect!" when Fernando Belaúnde Terry, Peru's inveterate barnstormer of a president, recently whistle-stopped through the high Andean sierra where guerrillas have challenged his government.

In the presidential palace in Lima, where economic crisis hovers over ministers' meetings, the wooden tables of the old banquet room are still groaning with scale models of the bridges and apartment towers the architect has planned for the country.

But after months of recession, curtailed programs and resurgent political violence, Mr. Belaúnde's hallmark formulas have begun to show troubling signs of wear. And two years after he reopened a new era of democratic government, his government is facing what supporters consider a crucial test.

"There were a lot of expectations raised by the return to democracy and the programs we initiated," said Jaime de Althaus, a government policy adviser. "Now we run the risk of creating frustrations and having people lose confidence in democratic institutions."

Politicians and diplomats see no prospect of a breakdown of de-

mocracy or a military coup like the one that ended Mr. Belaúnde's first presidency in 1968. But signs of stress in this relatively poor country of 18 million people are everywhere.

As recession has forced down prices of mineral exports like copper and silver to their lowest level in 40 years, Peru's economy has stalled and its balance of payments has slumped severely.

Government officials have been forced to look for cuts in government spending to satisfy creditors and the International Monetary Fund. Mr. Belaúnde has come nowhere near his campaign promise of creating a million new jobs.

More than half of Peru's population remains unemployed or underemployed, according to government figures, even as inflation remains at a level of around 60 percent.

Meanwhile, the economic problems have all but frozen much of the ambitious program of building roads, housing and schools and colonizing of eastern jungle areas that comprises Mr. Belaúnde's long-treasured vision of Peruvian development.

"There is a frustration in the government because of the economic crisis," Mr. de Althaus said. The government has established

the general basis of its program, he said, but it has not been able to "mount all of the necessary force."

The economic idling has sunk Mr. Belaúnde's popularity rating from a high of near 50 percent early this year to a little more than 30 percent now, according to poll results published by the magazine *Caretas*.

At the same time, the government's political problems have been sharply increased by the expanding activity of Peru's Andean-based leftist guerrilla movement, Sendero Luminoso.

After months of hurling dynamite at government buildings and foreign embassies, the estimated 500 to 1,000 members of Sendero Luminoso, or Shining Path, suddenly emerged as a political issue this year after they attacked a prison in the town of Ayacucho and freed 250 prisoners.

Now, weeks after another surprise of rebel activity provoked the authorities to declare a state of emergency in Lima and three Andean provinces, opposition political leaders and even some of Mr. Belaúnde's supporters have made a major issue out of the government's handling of the problem.

"He is looking very weak on the guerrilla problem," said Manuel d'Ornellas, a political columnist and strong supporter of Mr. Be-

laúnde. "It's a situation he hasn't wanted to recognize and has played down too much."

While hard-liners have complained about Mr. Belaúnde's refusal to order the army to handle the guerrillas, other opponents and human rights groups have said that arrests carried out under the state of emergency and abuses by the police have sapped the government's democratic character.

For Mr. Belaúnde, who is to visit Washington Nov. 9, these charges have been both wounding and perplexing. When asked in a recent interview about allegations of police abuses, Mr. Belaúnde responded, "People who talk human rights here, they want to teach me?"

On the economic problems, he said, "the world is in worse shape now." But Mr. Belaúnde argued that Peru had borne up under the effects of recession in industrialized nations better than most of its neighbors in Latin America.

Still, his sharp denials of problems in handling terrorism and his image of detachment from economic matters has led some analysts to say Mr. Belaúnde has lost touch. Others say the government is more accurately described as temporarily stalemated.

Meanwhile, in the Andean region around Ayacucho, the police



Fernando Belaúnde Terry

and Sendero Luminoso guerrillas now seem deadlocked.

For Mr. Belaúnde, political analysts say, the danger is that a continuing impasse, with its publicized trickle of new violence, will result in mounting public calls for the army to "reestablish order."

The result could be a severe loss of prestige for the president, even the start of a chain of events that could lead to a coup.

For now, Peru's military leadership is believed to be loyal to Mr. Belaúnde and reluctant to be involved in a bloody anti-insurgent operation.

Clandestine Raids Into Nicaragua Supported by U.S., Officials Say

By Philip Taubman
New York Times Service

WASHINGTON — The United States is supporting small-scale clandestine military operations against Nicaragua intended to harass but not to overthrow the Nicaraguan government, senior Reagan administration officials say.

The officials on Monday denied a report in *Newsweek* magazine that the Central Intelligence Agency was trying by covert means to topple the leftist government in Managua.

A senior national security official insisted that the scope of clandestine operations was limited to hit-and-run raids into Nicaragua by small paramilitary units based in Honduras, skirmishes with Nicaraguan troops along the Hondo-

ran border, and financial support for political opponents of the Sandinist government.

The official said that no Americans were directly involved in the paramilitary operations, but acknowledged that the CIA was providing money and military equipment to the units. He said that Americans were also helping to train the anti-Sandinist forces, which are composed primarily of Nicaraguan refugees.

The official contended that the military and financial aid fell within the limits of an overall plan for covert operations in Central America approved by President Ronald Reagan almost a year ago.

The plan, parts of which were disclosed in press accounts earlier this year, called for formation of a small paramilitary unit in Hondo-

ran to interdict Cuban supply lines to guerrillas in neighboring El Salvador and financial support for moderate political and business institutions and leaders in Nicaragua, administration officials said.

"We are not waging a secret war, or anything approaching that," a senior intelligence official said. "What we are doing is trying to keep Managua off balance and apply pressure to stop providing military aid to the insurgents in El Salvador."

President Reagan reportedly rejected a more ambitious effort against the Sandinists, partly because that was considered potentially counterproductive to overall U.S. policy and partly because intelligence officials said that the CIA did not have adequate resources to undertake a major paramilitary operation.

Schmidt's Successor Facing an Uphill Fight Against Kohl

By James M. Markham
New York Times Service

BONN — West Germany's opposition Social Democrats have embarked on an uncertain course with the designation of Hans-Jochen Vogel, the party's respected West Berlin leader, to replace Helmut Schmidt as its candidate for chancellor in elections expected in March.

The swiftness with which the party leadership selected Mr. Vogel last week after Mr. Schmidt withdrew bespoke both a strong consensus behind Mr. Vogel and an awareness that he has little time to project himself as an alternative to Chancellor Helmut Kohl.

For the Social Democrats, Mr. Vogel's greatest strength is his ability to reconcile the party's mainstream with its vocal and divisive left wing. It is a talent that will be tested as the Social Democrats seek a common policy for dealing with the Greens' anti-nuclear movement.

In an interview last month in West Berlin, Mr. Vogel, 56, argued that the Social Democrats should adopt an "even-tempered" posture toward the Greens, who in recent state elections have confirmed



Hans-Jochen Vogel

their position as the country's third political force.

"We have to take these people seriously," said Mr. Vogel, "and not handle them as outcasts."

As the party's candidate, Mr. Vogel has reiterated these views, insisting that in West Berlin the Alternative List, as the Greens are known there, had "a remarkable degree committed itself to the par-

liamentary process" and was capable of constructive legislative work.

Mr. Vogel's indulgent words about the Greens seem to echo the position of Willy Brandt, the Social Democratic Party chairman, who has spoken of a "new majority" that would amount to an alliance with the Greens and disident Free Democrats upset by their party's switch to Mr. Kohl's Christian Democrats.

But the wooing of the Greens has met with a warning from Mr. Schmidt. "One shouldn't roll out any red carpets to them," he said this week, "because it's not clear what they'll do with them."

Mr. Vogel was first elected mayor of Munich at the age of 34, and in 1966 he polled a spectacular 78 percent of the vote. During his 12 years as Munich's mayor, he acquired the reputation as party right-winger because of his battles with the Social Democrats' highly ideological left wing.

Anger and frustration with party leftists persuaded him to leave Munich in 1972. Appointed justice minister by Chancellor Schmidt in 1974, Mr. Vogel, a Roman Catholic, pushed through liberalizing reforms of divorce and abortion laws and led the successful campaign to remove the statute of limitations for Nazi war criminals.

In the late 1970s, when the country was shaken by terrorism, the justice minister impressed colleagues by taking a firm line against the violence without succumbing to demands for outright repression.

In January 1981, Mr. Vogel was sent to West Berlin to rescue the local Social Democratic organization, which had been discredited and demoralized by a financial scandal that had forced the resignation of Mayor Dietrich Stobbe. As mayor, Mr. Vogel rebuilt the party and developed the so-called "Berlin line" of a certain tolerance toward the youth and squatter movement in the city.

But Mr. Vogel was unable in

Proposal Sanctioning Radio Jamming Is Blocked at Communications Parley

United Press International

NAIROBI — Western nations at a global telecommunications conference Tuesday forced the withdrawal of a proposal by Czechoslovakia to sanction electronic jamming of international radio broadcasts deemed dangerous to state security.

A Western delegate said the proposal could have led to the jamming of stations such as the Voice of America and the British Broadcasting Corp. that broadcast to East-bloc countries.

Czechoslovakia withdrew its proposal after threats by Western nations to disrupt the International

Telecommunications Union conference. The proposal, which had some support in Third World and East-bloc countries, reserved a country's right to "cut off any transmissions which appear dangerous to the security of the state or contrary to their laws, to public order or to decency."

TTU members are free to jam internal signals but are barred from interrupting international radio signals passing over their countries. Under current international accords, the jamming of broadcasts originating in other countries is prohibited, although some countries do block external broadcasts.

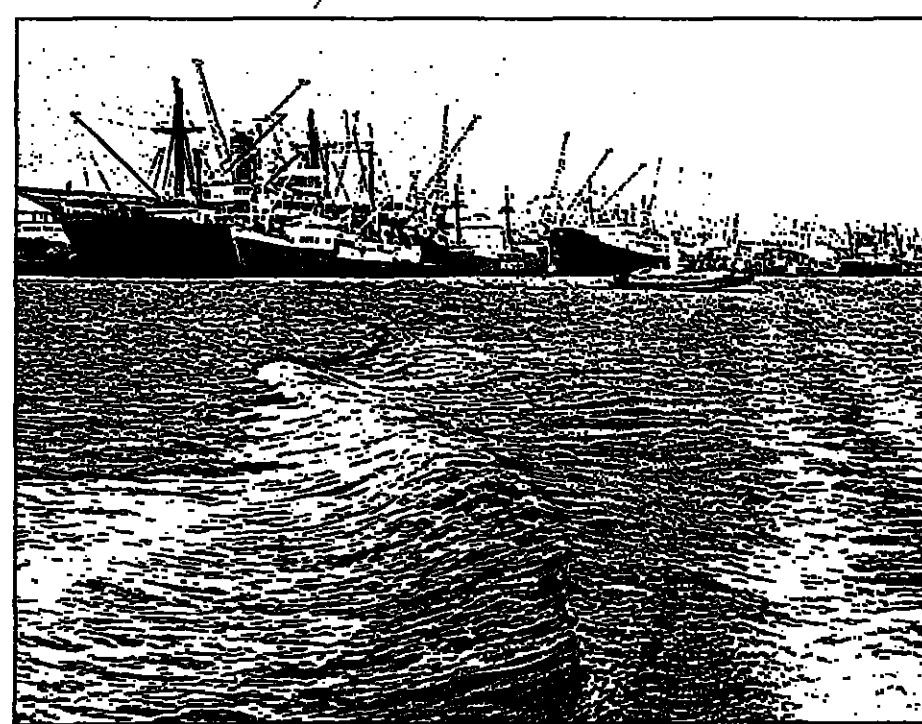
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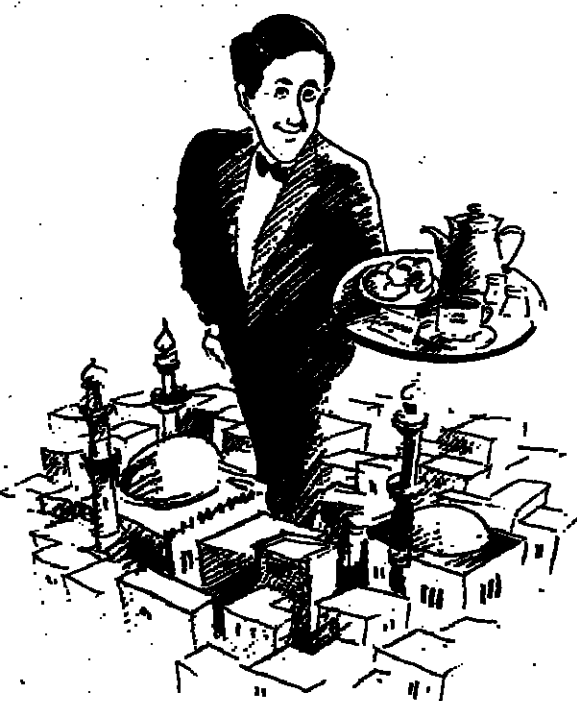


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THE FRENCH ART OF FINE LIVING THROUGHOUT THE WORLD

INSIGHTS

Halley's Comet: The Long Hello Begins

By John Noble Wilford

New York Times Service

NEW YORK — Some photons traversing more than a billion miles of space arrived at the Earth a few weeks ago, bearing a message long awaited.

These particles of radiant energy, from sunlight reflected off a vagabond chunk of dirty ice, registered a faint impression on a silicon-chip sensor near the base of the great 200-inch (508-centimeter) telescope on Mount Palomar in California.

Astronomers saw the speck of recorded light and recognized its meaning. The most celebrated comet is now back in view, Halley's comet.

The sighting set in motion plans long laid for one of the most intensive investigations of a heavenly object in the history of astronomy. Large telescopes around the world are being focused on the comet, now out beyond the orbit of Saturn.

More and more telescopes will join the watch as the comet draws closer, and beginning in late 1984 a multinational fleet of spacecraft will be going forth to get an even better look. Sounding rockets, high-altitude aircraft and balloons are also to be readied for deployment when the comet makes its closest approach to the Earth and the sun, in the winter and spring of 1985-86.

Over the next five years, scientists are expecting to make enormous advances in their understanding of comets, those swift and sometimes dazzling wanderers of solar space that have long fascinated and mystified mankind.

Perhaps, since comets are thought to be among the most primitive bodies in the solar system, scientists will gain from the visitation of Halley's comet a better understanding of the conditions of 4.6 billion years ago out of which the sun and its family of planets emerged.

Halley's comet is an irresistible object of attention. Its regular traveling habits and brilliant showmanship appeal to scientists. They can plan their investigations, particularly the

greeting party of spacecraft, with a high degree of precision because the comet's course is well known after so many appearances recorded in the last 2,200 years.

The comet was named for Edmond Halley, an English astronomer who in 1705 calculated cometary orbits and predicted that a comet seen in 1682 would reappear in 1758, which it did. It has been coming back every 76 years or so.

It will be a long time before the comet's current approach will be visible to the unaided eye, or through less-sensitive telescopes. Even then, astronomers say, the comet will not be as impressive a sight as in 1910.

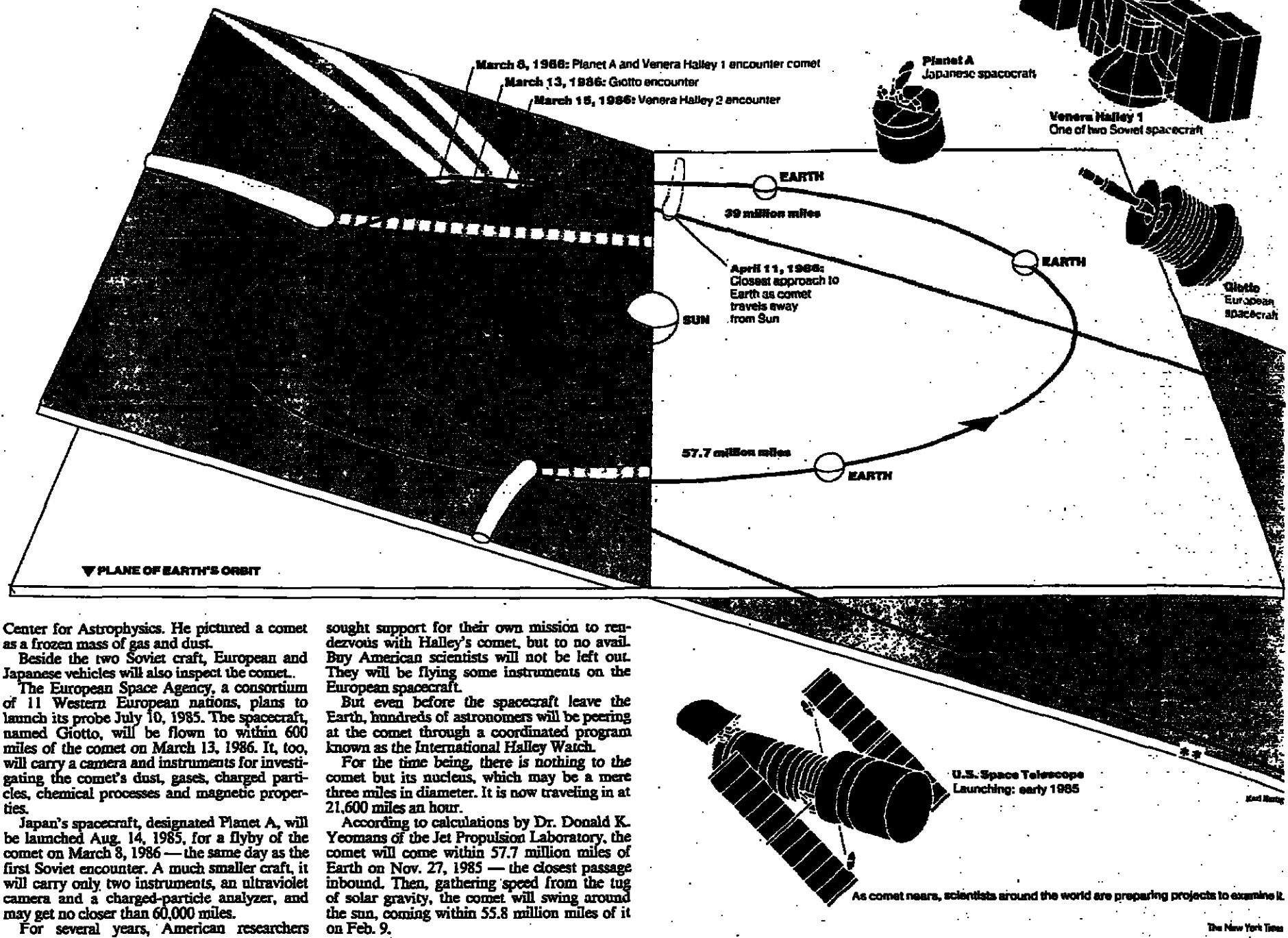
Because the Earth's position relative to the comet's path will be different this time, the comet will be on the other side of the sun when its tail reaches its maximum length of perhaps 50 million miles (80 million kilometers). The best times for ordinary viewers to get a glimpse will probably be in November and December of 1985 and again in March and early April of 1986.

But scientists are confident that recent technology will more than compensate for the inferior viewing circumstances. This time, moreover, scientists intend to meet the comet more than halfway, so to speak, in an effort to learn more of its composition. They are sending out four spacecraft especially designed to study the comet.

The Soviet Union, in partnership with France, has the most ambitious plans. Two spacecraft, Venera Halley 1 and 2, are to be launched in December 1984 and fly by Venus. This has been the mission's sole objective until a French scientist suggested redirecting it to encounter the comet.

The encounters are now scheduled for March 8 and March 15 in 1986. The two craft should come within 6,000 miles of the comet's solid nucleus and spend several hours taking pictures and gathering other data.

The encounter will provide a key test of the "dirty snowball" model, proposed in 1951 by Fred L. Whipple of the Harvard-Smithsonian



Center for Astrophysics. He pictured a comet as a frozen mass of gas and dust.

Beside the two Soviet craft, European and Japanese vehicles will also inspect the comet.

The European Space Agency, a consortium of 11 Western European nations, plans to launch its probe July 10, 1985. The spacecraft, named Giotto, will be flown to within 600 miles of the comet on March 13, 1986. It, too, will carry a camera and instruments for investigating the comet's dust, gases, charged particles, chemical processes and magnetic properties.

Japan's spacecraft, designated Planet A, will be launched Aug. 14, 1985, for a flyby of the comet on March 8, 1986 — the same day as the first Soviet encounter. A much smaller craft, it will carry only two instruments, an ultraviolet camera and a charged-particle analyzer, and may get no closer than 60,000 miles.

For several years, American researchers

sought support for their own mission to rendezvous with Halley's comet, but to no avail. Buy American scientists will not be left out. They will be flying some instruments on the European spacecraft.

But even before the spacecraft leave the Earth, hundreds of astronomers will be peering at the comet through a coordinated program known as the International Halley Watch.

For the time being, there is nothing to the comet but its nucleus, which may be a mere three miles in diameter. It is now traveling in at 21,600 miles an hour.

According to calculations by Dr. Donald K. Yeomans of the Jet Propulsion Laboratory, the comet will come within 57.7 million miles of Earth on Nov. 27, 1985 — the closest passage inbound. Then, gathering speed from the tug of solar gravity, the comet will swing around the sun, coming within 53.8 million miles of it on Feb. 9.



Halley's comet as it streaked across the heavens in 1910.

The U.S. Congressional Elections: Views From Around the World

U.K. Fears Reagan May Be Weakened

LONDON — As the British see it, the outcome of the U.S. election could well determine the viability of Mr. Reagan's presidency. And for Prime Minister Margaret Thatcher's government, the best result would be, as one official put it, "continuity and consistency."

Despite the differences over supplies for the Soviet natural gas pipeline, steel and other trade issues, Mrs. Thatcher is a staunch Reagan friend.

"Ronald Reagan is obviously not going to impress the left in this country or anywhere else," one Downing Street source said, "but the majority opinion would see him as a more, rather than less, reliable partner, and that he is on the right side when it counts most."

The central issue here and in many other European capitals, is whether a strong American president, even one whose policies are seriously flawed, is preferable to a broken one, "limp and twisting in the wind for two anxiety-ridden years."

The dangers of, alternatively, the opportunities of that prospect were raised this week in The Guardian, a critic of Mr. Reagan's economic and military strategies. A clear repudiation of Mr. Reagan, combined with the reasonable possibility that he will not run for a second term because of his advanced age, would effectively collapse the president's power, the newspaper argued.

"Common sense and a longing for stability would dictate a modest vote of confidence for Mr. Reagan," The Guardian said. But, the newspaper went on, citing American polls, the verdict appears to be that Mr. Reagan is "a pleasant fellow but a lousy chief of state."

Reaganomics is especially controversial in a country that, since 1979, has had Thatcherism, a similar approach. Michael Foot, leader of the opposition Labor Party, has coupled the two policies in recent denunciations as a "threat to us all, fundamentally unsound economic policies being ruthlessly applied."

Those who argue that Mr. Reagan has discredited himself and therefore deserves to be, in The Guardian's phrase, "a lame old duck" acknowledge that having the Democrats in control of Congress would lead to a period of, at best, stalemate. The critics also concede that uncertainty in American policies have a substantial ripple effect on the rest of the world.

For example, it is understood that Mr. Reagan's Middle East initiative, which has won widespread praise here, would have substantially reduced impact if the president were perceived as a declining figure. A weak president, moreover, would not be in a position to press any arms agreement with the Russians that might emerge from talks in Geneva.

Allies See Balloting as Referendum on Reagan Policies

WASHINGTON — U.S. allies in Europe and Japan are hoping that anticipated Republican losses in Tuesday's mid-term congressional elections will cause the Reagan administration to soften its rightist orthodoxy and pursue more conciliatory policies in economic and military matters.

Governments in West Germany, France, Italy and Japan are known to feel that a mild Republican defeat could have salutary effects on the Atlantic alliance, especially if the White House is encouraged to seek lower interest rates and lift sanctions against firms involved in building the Soviet-European gas pipeline.

At the same time, the allies fear that a sweeping Democratic victory poses the risk of a power stalemate in Washington for the next two years that would handicap the strong U.S. leadership needed to pull the West out of recession and relieve antagonisms with the Eastern bloc.

The accompanying dispatches from Washington Post foreign correspondents indicate that, while the elections have not stirred a great deal of public interest abroad, governments are looking at the results as a referendum on President Ronald Reagan's stewardship in the White House and as a harbinger of possible policy shifts.

Bonn Expects More Stable Relations

BONN — The U.S. elections coincide with what West German officials regard as a new, more stable phase in relations between Europe and President Reagan.

Signs of this change, officials say, began some weeks ago, reflecting perhaps more than anything else the arrival of Secretary of State George P. Shultz and his quiet, behind-the-scenes approach to diplomacy.

The administration is perceived now as more experienced and less bent on confrontation in its dealings with West European governments generally. The harsh conservatism that held sway early in Mr. Reagan's term is seen here as having given way to more moderate influences.

This development, some West German analysts hope, will be reinforced by the elections. No one interviewed in the Bonn government actually came out cheering for a Democratic victory in Congress that might hold Mr. Reagan in check, but it was clear that any election result that would have a moderating effect on the Republican right wing would be welcomed.

"Quite a few expect that the second period of the Reagan administration will be easier, not only because the president's people are more experienced but also because the administration may have to put up with a somewhat changed situation in Congress," said Karl-Dietrich Bräcker, a historian and political science professor at Bonn University.

But beneath the optimism is a recognition that basic alliance problems are likely to persist for some time. A change in Washington's style can only go so far in resolving what remain fundamental differences in approach to East-West questions.

"The central problem still remains," observed a ranking Bonn official. "We have to

find a common approach in East-West relations, especially in trade."

"We have different views on how to bring the Soviets to act more responsibly in international affairs. This is not just a question of differing views of the benefits of détente in the United States and Germany. We seem to agree on principle, but when it comes to details, many inconsistencies remain. Our strategies still don't fit together," he said.

The U.S. ambassador, Arthur Burns, in a critical speech on alliance relations last week that drew much notice here, listed important issues that continue to keep the United States and its European allies at odds. Those cited were the nature and gravity of the Soviet threat, the proper response to Soviet aggression in places like Afghanistan or Poland, the principles that should govern trade with the East, the best means of providing economic and political support to Third World countries, and the proper alliance response to security threats in areas outside NATO, particularly in the Gulf.

Curiously, one election issue, the nuclear arms freeze, has received little attention in West Germany, where resistance to new nuclear weapons is strong.

West German analysts offer several reasons for this. One is the lack of excitement the freeze referendums seem to be generating in the United States itself.

Second, the American proposals, with their emphasis on a mutual, verifiable moratorium by East and West, differ from the popular European call for a unilateral halt to nuclear weapons deployment. This makes European peace movement leaders reluctant to draw too close attention to the American movement, except to note that a parallel effort exists.

Role of Scapegoat Concerns Japanese

TOKYO — A deepening mood of frustration is evident here among Japanese over what they view as the Reagan administration's high-handed approach in dealing with Japan on the issues of trade and defense. The Japanese fear their country may be in for an extended run of being cast as a scapegoat for American economic ills.

In the meantime, there is growing anxiety here that high unemployment rates in the United States will inevitably lead to more resistance to Japanese goods and possibly a greater backlash against the Japanese.

Government and private economists here generally give Mr. Reagan high marks for his efforts to turn around the U.S. economy, the biggest single overseas market for Japanese goods.

The president's calls for belt-tightening and self-sacrifice strike a deep chord with the traditionally frugal, highly disciplined Japanese. But the consensus of many in government and business here is that a continuation of Mr. Reagan's economic policies will keep any benefits for American industry far down the road.

In the meantime, there is growing anxiety here that high unemployment rates in the United States will inevitably lead to more resistance to Japanese goods and possibly a greater backlash against the Japanese.

Japanese government officials and business leaders have been angered by Mr. Reagan's stand on the Soviet natural gas pipeline to Europe, but have said little for fear of sparking even more heated criticism of Japanese trade policies.

"It's been a very popular theme to blame Japanese exports to the U.S. for widespread layoffs," said a senior official who asked that he not be identified. "We are very much worried that this will strengthen the negative image of Japan in the United States."

In the recent election campaigns in the United States, calls by former Vice President Walter F. Mondale and others for protectionist legislation have churned up strong feelings among the Japanese, who have read press accounts of incidents such as the bashing of Japanese cars by unemployed auto workers in Detroit.

"Frankly, Japanese are sick and tired of Reagan tactics toward Japan and Europe," said a senior political writer for a major Japanese newspaper. "We want somebody who'll sit down calmly and talk rationally about the issues of trade and defense."

"You pick up the paper here and practically every day it's full of demands," the writer said, from American officials for Japan to move faster to shoulder a greater military spending burden or to open its markets more widely. "The Japanese really want to see Reagan put forward a more reasonable foreign policy, especially toward Japan," said a specialist on U.S. affairs. However, he said, American officials recently "have been high-handed and arrogant and shown no willingness to listen to Japan."

A Lack of Interest Prevails in Israel

JERUSALEM — Preoccupied with events in Lebanon and the aftermath of the massacre of Palestinians in West Beirut, Israel seems to have barely noticed the approach of the congressional elections in the United States.

The Israeli press has paid scant attention to the American political scene, and a veteran observer of such matters says he cannot recall a U.S. election that attracted less notice here.

The lack of interest partly stems from the introspection that has followed months of turmoil in Israel and Lebanon. It is also due, however, to the nature of the U.S.-Israeli relationship.

That relationship was summed up by a senior government official: "My favorite American president is always the present one. My favorite American Congress is always the present one, because that is who we have to deal with."

Off-year elections, an Israeli remarked, can provide an interesting gauge of a president's popularity and "the mood of the United States." It can also yield useful clues about what direction the presidential election campaign will take two years hence, he said.

But foreign policy is seldom a major factor in off-year voting except in isolated congressional races, he noted.

There are, of course, individual races of more interest than others to Israel. Among them are those involving Senators Henry M. Jackson, Democrat of Washington; Daniel Patrick Moynihan, Democrat of New York; and Howard M. Metzenbaum, Democrat of Ohio, all strong supporters of Israel.

But whatever the overall results, the election is not likely to have much immediate impact on Israel, officials say.

Despite the recent strains between Washington and Jerusalem, Mr. Reagan continues to be seen as a basically pro-Israeli chief executive.

And Israelis seem reassured by the administration's pledges to continue economic and military aid and to maintain good relations despite the differences growing out of the war in Lebanon.

The major issue between the two countries is the president's peace initiative. The Israelis hope it will fade into obscurity but expect the administration to continue to push it regardless of the election outcome.

Little Importance Attached by Arabs

CAIRO — Arab countries generally have not paid much attention to the U.S. elections because they are not seen as very important to U.S. foreign policy in the Middle East.

There has been little if any commentary in the Egyptian or other Arab press. However, the question of whether President Reagan intends to "stay the course" as regards his Sept. 1 initiative is very much on the minds of Arab governments.

It is now generally realized that the United States is the last remaining hope for stopping Israeli annexation of the West Bank and getting Israel out of Lebanon.

The stream of Arab leaders to Washington, which has already begun with the delegation of King Hassan II of Morocco and President Amin Gemayel of Lebanon and is to continue with King Hussein of Jordan and possibly President Hosni Mubarak of Egypt, is symbolic of the "all eyes on Washington" attitude of the Arab world now.

Arab leaders have gone out of their way not to antagonize the Reagan administration, first by not criticizing Mr. Reagan's initiative and even noting its "positive aspects" and second by avoiding expulsion of Israel from the United Nations.

The thrust of Arab strategy now is to woo the United States away from Israel, to appear as moderate and reasonable as possible in hopes Mr. Reagan will put pressure on Prime Minister Menachem Begin. This attitude of hope in regards Mr. Reagan is mixed, however, with underlying doubts about his will to really push Israel as hard as Arabs believe will be necessary to get it to trade land for peace.

Added to this are persisting doubts about the worth of U.S. guarantees to Arabs over control of Israeli actions following the Israeli invasion of West Beirut and the slaughter of Palestinians. Arabs generally feel Israeli action in West Beirut was precisely intended to undermine the Reagan initiative and discredit Mr. Reagan in eyes of the Arab world.

If Mr. Reagan succeeds now in getting Israel out of Lebanon the way he got the Israelis out of Beirut and its airport, the Arab faith in Mr. Reagan's determination and persistence will increase enormously. If not, his credibility will be very much on the line.

S. Americans Pay Slight Attention

BOGOTA — The midterm elections in the United States appear to have attracted little interest from the public or policy-makers in South America.

Public and media interest and comment on the elections have been slight at attention had focused on last week's elections in Spain.

Campaign Ignored By Most Africans

NAIROBI — "All we're interested in is the presidential elections," a Kenyan official said when asked about the U.S. congressional elections, a view that probably reflects the opinion of many educated Africans.

"Who knows in Kenya what mid-term congressional elections mean?" he added.

There has been no news or editorial coverage of the elections in the Kenyan press, among the more internationally minded of the media in Africa. Newspapers in Zimbabwe and Zambia have also ignored the campaign.

Moderate African nations, however, gradually have become more critical of the Reagan administration as the U.S.-led negotiations on removing South-West Africa from South African control to form an independent Namibia have become stalled.

A Kenyan Foreign Ministry official expressed a familiar criticism — failure of the United States to supply greatly increased aid to Kenya.

Trade Sanctions At Issue in Poland

WARSAW — The U.S. elections are being closely watched by the Polish military authorities, who would welcome any signs of a weakening in Mr. Reagan's political position.

Polish attitudes toward the elections are colored almost entirely by the issue of U.S. sanctions against Poland and the Soviet Union imposed following martial law and the suppression of the independent Solidarity trade union.

For Polish officials, "staying the course" has very unpleasant connotations since it implies at least two more years of very strained economic and diplomatic relations.

Advisers to the Polish government assume, however, that President Reagan's foreign policy course cannot last forever. They believe that either Mr. Reagan will be forced to pursue more pragmatic policies or he will be replaced at the next presidential election by a more moderate politician.

Either way, Polish officials hope that the U.S. elections will mark a turning point. But a propaganda campaign blaming Mr. Reagan for Poland's continuing economic crisis has failed to make much impression on ordinary Poles.

Russia Watching Returns Closely

MOSCOW — There have been no public comments here on the U.S. elections and nothing substantive should be expected before the voting. But the Russians are following the events in the United States very closely.

A special task force has been set up in what could be described as an unprecedented mobilization of intellectual resources to study the outcome.

The feeling is that the elections will have a decisive influence on the rest of Mr. Reagan's term. The main attention is focused on the House races and the magic figure is 20. It is believed that, if Mr. Reagan loses fewer than 20 seats, his policy line may become tougher with the appropriate consequences to be drawn here.

A loss of more than 20 seats would be seen as foreshadowing the collapse of the working coalition between Republicans and conservative Democrats.

The Russians are not so much concerned about the Senate, because they see the House coalition as the basis of Mr. Reagan's power.

China Is Impatient On Several Issues

BEIJING — Chinese officials and news media have remained silent on the American elections, but Beijing has a long list of complaints against the Reagan administration.

Chinese patience has grown so thin on a series of issues ranging from U.S. trade restrictions to defection of a Chinese tennis star that some diplomats here believe Beijing has all but given up on the once-budding relationship while Mr. Reagan remains in office.

The Chinese leaders have dropped all talk of a strategic partnership with the United States against the Russians and use the same "hegemony" label on Washington that they once reserved for Moscow.

The Chinese have also begun a political dialogue with the Kremlin for the first time in three years. Diplomats believe at least part of the motive for resuming those talks is disillusionment with Washington.

Deng Xiaoping, the most powerful Chinese leader, expressed as much in a meeting with a Japanese visitor Oct. 25, saying Chinese-American relations have seriously deteriorated since Mr. Reagan took office.

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COMMODITIES

Oil Price Outlook Appears Uncertain In Post-Surplus Era

By Sally Chibley

LONDON — Despite the stability of the oil markets in recent months, the long-term outlook for oil prices remains uncertain. The continuing lack of cohesion within the Organization of Petroleum Exporting Countries and the increasing importance of the non-OPEC producing countries has altered the supply end of the chain while the recession and energy conservation have reduced demand. Overall, the oil industry of the 1980s bears no relation to that of 20, or even 10 years ago.

Earlier this year, the oil glut was a much-publicized phenomenon, with predictions that OPEC would collapse and crude oil prices would fall to \$25 a barrel. But six months later, oil prices were stabilizing. OPEC was maintaining, more or less, its price and production agreements and the market was returning to a kind of normalcy.

Now, however, the market is again facing confusion, with no clear outlook beginning to emerge. Much of the reason for this is the long-awaited, but not yet apparent, upturn in oil demand that was widely predicted for the fourth quarter of this year.

There have been some encouraging signs that oil demand is picking up and that prices will firm — West Germany, the United States and Japan all revised their provisional second-quarter consumption figures upwards, contributing to the International Energy Agency decision to predict a fourth-quarter drop in demand of only 4 percent in the fourth quarter. But there are other indications that the market has some way to go yet.

Looking, for example, at the futures prices for gas oil in London and heating oil in New York, the expectation seems to be that the price will hold steady through to December-January but will begin to drop significantly after that. The markets are seasonal, with one of the main uses of gas-heating oil being space heating, but, even taking this into account, there seems little confidence among traders using the markets that demand and prices will pick up in the medium term.

Although the recent demand figures in the major industrialized countries have been stabilizing, the severity of the falls in recent years should not be forgotten. The oil industry has to be adjusted to fit a smaller overall picture — and it has not yet come to terms with this.

Gas oil prices, particularly since the opening of the futures markets in New York and London, are a focus of opinion on the oil market. Gas oil is the most widely traded product on the free market, accounting for by far the largest proportion of spot trading on the Rotterdam market. As such it has always been susceptible to market news and views.

The movements of prices on the futures markets give a valuable guide to the opinion of those involved in the oil trade, and as more contracts are introduced they will provide an even better picture. New York already trades a gasoline contract and is planning a crude-oil market, while Chicago plans to introduce heating oil and crude and London is looking at gasoline and fuel oil.

Some years ago, these markets could not have survived — one that opened in London in the early 1970s failed — because the oil market was to a great extent in the hands of the major oil companies, the Seven Sisters, and, later, OPEC. Only recently oil has begun to behave like a real commodity, proving itself susceptible to supply and demand and failing to provide the absolute hedge against inflation many believed it could do.

Meanwhile, prices are likely to strengthen, or at least remain stable, over the winter months with oil demand at its relative peak and the beginnings of an economic upturn likely in some of the countries hardest hit by the recession.

But the OPEC meeting in December could prove crucial. Since the last full ministerial meeting in July, a number of OPEC countries have bent the terms of the March production agreement to their own advantage. This has had the effect of creating tension between the Gulf states, producers of poorer quality crude, and the African producers of sweet crudes. If OPEC is to bring real stability to the market, it must be seen to be a strong grouping. It now accounts for less than half the free world's oil production and so no longer has the absolute control it had in the past.

Oil product prices, once led by crude, now have an increasing influence on the crude price — oil refining has only recently become profitable again after several years of unprofitability. The introduction of crackers and other upgrading facilities and the gradual rationalization of capacity, have been the major factors behind this recovery. With margins of hard times still fresh in the minds, refiners are likely to fight hard to maintain profitability. This is likely to cause some stabilization into the market, but the refiners can, of course, only control supply.

Another major feature of the market recently has been the strength of the dollar, which makes oil products more expensive than ever in most of the consuming nations. Exchange rates are likely to continue to exert a strong influence on the market and throw yet another unknown into the equation.

Looking still further ahead, the possibility of a shortage of crude at some time in the future should not be forgotten. The rise in oil consumption in the developing countries combined with projected growth rates for the industrialized nations have contributed to the IEA's recent warning that a new oil crisis could develop in the 1990s — a warning that should not be ignored in long-term estimates.

Thus, the outlook is uncertain, with all the factors mentioned above likely to exert an influence. Futures market prices for next spring underline the lack of confidence felt by the industry about an upturn in prices, but there are signs that some sort of stability might return.

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Heavy trading on the Chicago Mercantile Exchange, where volume reached almost 30,000 contracts daily for S&P 500 futures during the stock market boom in August and October.

Money Markets Geared for Boom In Futures Trading

By Jerome Idaszak

CHICAGO — It may seem odd that it took U.S. futures exchanges more than 100 years to "discover" money, but that discovery is even less revolutionary than the one that is propelling the industry's growth now — the discovery of cash.

The first discovery was made in 1872 when the Chicago Mercantile Exchange took commodity futures trading beyond agriculture into the world of the Swiss franc, the German mark and other foreign currencies. Five years later came futures pegged to movements of interest rates, and quickly everyone began talking about money as the ultimate commodity.

The single biggest contract on any futures exchange continues to be Treasury bond futures on the Chicago Board of Trade. Contracts worth \$8 billion in underlying Treasury bonds change hands on an average day. Futures trading, which had been limited to farm commodities and farm-related businesses, now attracts the Wall Street establishment of Salomon Brothers, Goldman, Sachs & Co. and other old-line financial firms.

In the business of futures trading, however, yesterday's success fades as quickly as an old newspaper. Everyone keeps their eyes on what to do next, especially industry leaders such as Leo Melamed, former chairman of the Chicago Mercantile Exchange, who is credited with leading the path into financial futures.

He said: "The challenge today is to maintain the momentum and to bring the international community to your place of business. There will be 24-hour trading. The challenge is to make sure you're connected, so Europe can use our market during our trading day, and Southeast Asia, too."

That international linkage has led the Chicago Mercantile Exchange leaders, including Mr. Melamed, to establish an office for its International Monetary Market division in London three years ago and to work closely with the recently-opened London International Financial Futures Exchange to help LIFFE, as it is known, begin smoothly. It has also led the Chicago Merc, as it is known, to create a study group that will work with Singapore officials in 1983 toward the goal of creating a financial futures exchange in that country.

The discovery of money as a basic "commodity" makes the global expansion of futures possible. From foreign currencies and U.S. interest rate instruments such as Treasury bonds and bills, it was a short leap to futures on Eurodollar time deposits. And while the volume of Eurodollar futures has been slow to build, that contract quietly introduced an innovation that paved the way for the big success story of 1982 — futures on stock indexes.

What Eurodollar futures, introduced by the Merc in late 1981, did was to allow the buyers and sellers of futures contracts to settle their trades in cash. From their early days, futures contracts, which carry the obligation to deliver or receive an underlying commodity at a fixed price and a fixed date in the future, had discouraged some participants, who blanched at the thought of getting a million bushels of soybeans delivered to their home or others who worried about a squeeze whereby they would be forced to pay high prices to make delivery of a commodity. Now, the trend is toward cash.

Cash settlement made possible the trading in early 1982 of stock index futures. Someone who sold futures on the Standard & Poor's 500 index would not have to worry about delivering one share of 500 different stocks.

As the stock market boomed in August and again in October, the three futures exchanges with trading on indexes saw volume swell. The Chicago Merc reached almost 30,000 contracts daily on its S&P 500 futures. The New York Futures Exchange, which was headed for oblivion until it began futures on the New York Stock Exchange composite index of 1,500 stocks, saw volume running daily at 10,000 contracts and more. And the Kansas City Board of Trade saw its futures on the Value Line index of 1,700 stocks offset a slump in the trading of wheat futures. John F. Sandner, chairman of the Chicago Merc, said about the S&P futures: "Our contract has been the most successful new contract in exchange history."

Futures industry officials see even greater potential as the stock index futures develop a longer track record. They see it appealing to money managers who handle portfolios for pension funds, insurance companies and banks. Instead of buying and selling stocks wholesale each quarter, the money managers could use futures trading to diminish the risk of plunging prices, the futures people argue.

They expect that more speculators, who provide liquidity in the futures markets, will be drawn to stock index futures after Congress approves a lowering of the tax rate to a maximum of 32 percent. The industry expects such action by Congress in December.

While most of the trends indicate growth and geographical expansion, there are a few storm clouds. One of those is an effort by U.S. government regulators to lift the veil of secrecy from the identity of foreigners who trade on U.S. exchanges. Some futures leaders say such efforts could drive Europeans to place more business in London than Chicago or New York.

The Commodity Futures Trading Commission, the agency that regulates the U.S. industry, approved a rule in September requiring a futures brokerage firm "to provide pertinent market information" if the commission sees the threat of manipulation of a market. One attorney with German clients noted that German law does not mandate the signing of such agreements, and he predicted "a quagmire of lawyers" trying to sort out the law's vagueness.

Richard W. Nathan, a New York attorney and a former trading commission staff chief, said: "Existing law is adequate to protect the market."

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Gold Prices Expected to Remain Steady

By Edwin Arnold

LONDON — The bear market for gold is now over but that is not the same as saying we are in a superbull market. I am not a \$700-an-ounce-plus in the next 12 months superbull. Indeed, I would be very surprised to see anything remotely superbullish about gold's performance over the next year or so. In number terms I am saying that if gold averages \$550 an ounce in the fourth or fifth quarter from now I will be very surprised.

In the third quarter of 1982 gold averaged \$380, and this included the spectacular \$100 gain in the first week of September, which in turn was a product of the local in New York and Chicago running out Middle Eastern short positions, probably totaling about 2 million ounces on the futures markets.

One can be a superbull if one believes: • Galloping double-digit inflation is just around the corner in the United States due to the Fed's new accommodation stance.

• Debt defaults by major countries and corporations will lead to major bank failures or the wholesale printing of money to prop up the banking system.

• Interest rates in the United States and in major economies of the Organization for Economic Cooperation and Development will go to negative levels for substantial periods of time in the hope of stimulating strong economic recovery.

• There will be an oil price explosion that will fuel a new bout of worldwide inflation.

• Corporate and private lenders of money will no longer expect a real return.

• A return to a fundamental Islamic view of life as witnessed in Iran breaks out in Saudi Arabia or the Gulf states.

These six reasons and variations upon them are the arguments used by the superbulls who see life in black and white, whereas reality is more often 100 shades of grey.

I certainly do not share the superbull view on double digit inflation around the corner. If the Fed

overshoots its targets by too much too soon then it rekindles the inflationary psychology that the Fed is at such pains to stamp out. Interest rate fundamentals are based in the end not only on the underlying rate of inflation but also on inflationary expectations. I fail to see how a U.S. government with such huge budget deficits to finance can allow interest rates to fall to unrealistic and negative levels or to allow a psychology to grow anew that believes negative levels are coming.

In fiscal 1983 the regular U.S. budget deficit is expected to be in a range of \$130 billion to \$145 billion and with off-budget agencies included, in the range of \$145 billion to \$160 billion. That should keep rates fairly high. If there is a strong recovery in the private sector we could see higher rates. But either way it seems a safe bet that the Fed will not drop its underlying concern about inflation and inflationary expectations. The lenders of the world are no longer that glib.

Equally, I fear that the world is in for a fairly long period of low economic growth with low inflation rates. This should be conducive to a bull market in government bonds and good corporate paper but not for gold, which earns no interest.

It is also difficult to reconcile the fear of double-digit inflation being quickly rekindled in the United States when industrial capacity utilization is at an extremely depressed 70 percent and unemployment at 10 percent. With U.S. inflation probably running at around 5.5 percent to 6 percent annually for 1982, the fear seems grossly exaggerated to me. As for major defaults with countries such as Mexico or failures of major banks or, indeed, the entire international banking system, I can only answer that I do not think it will happen.

The crisis will be contained, I believe, with the cracks being

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Edwin Arnold is a metals specialist at Merrill Lynch International.

Gold Price and Supply Statistics

	Average London Gold Price \$oz.	S.A. Mine Output (000 oz.)	Krugerrand Sales (000 oz.)	Krugerrand Sales as % of Mine Output	IMF and U.S. Auction Sales (000 oz.)
1974	159	24387	3204	13	—
1975	161	22765	4804	21	1254
1976	125	22778	3004	13	780
1977	147	22408	3331	15	6030
1978	193	22667	6012	27	9964
1979	306	22613	4941	22	17208
1980	615	21669	3143	15	2220
1981	460	21117	3560	17	0
1982 Est	370	21250	4000	19	0
1981					
1st Quarter	518	5234	950	18	0
2nd Quarter	479	5229	443	8	0
3rd Quarter	421	5357	1071	20	0
4th Quarter	420	5227	1096	21	0
January	558	1728	284	17	0
February	500	1725	321	19	0
March	499	1781	345	19	0
April	496	1756	123	7	0
May	480	1744	133	6	0
June	461	1799	207	12	0
July	409	1788	447	25	0
August	410	1795	408	22	0
September	444	1774	216	12	0
October	438	1816	329	18	0
November	413	1711	407	23	0
December	410	1640	360	22	0
1982					
January	384	1683	380	23	0
February	375	1707	308	18	0
March	333	1707	664	39	0
April	350	1763	143	8	0
May	334	1758	141	8	0
June	315	1850	206	11	0
July	338	1835	147	8	0
August	364	1838	62	3	0
September	438	N.A.	N.A.	N.A.	0
1st Quarter	363	5113	1352	26	0
2nd Quarter	333	5371	490	9	0
3rd Quarter	380	N.A.	N.A.	N.A.	0

(1982—Aug. S.A. Mine Output)
Source: T.C. Combs & Co.

Current Stability: The Chances of a Solid Market Upturn

By Justin Aylward

LONDON — The bull markets experienced by commodities during the 1970s were in large measure associated with the accelerating pace of inflation. Between 1960 and 1970 the Reuters Commodity Index advanced a mere 28 percent. Over the next 10 years commodities took off and the Reuters Index recorded a 207-percent increase.

There were differences in the timing and circumstances responsible for the bull markets in the individual commodities. From 1960 to 1970 the chief factor responsible for the astronomical coffee prices prevailing in 1977. Heavy Soviet purchases caused lead prices to more than double during 1978 and 1979. Nevertheless, the underlying momentum was provided by the apparently inexorable march of inflation and the accompanying preferences for tangibles.

With hindsight it can be seen that the rush for tangibles reached its peak at the very moment that such a strategy became obsolete. The speculative blowoff in precious metals at the end of 1979 coincided with the installment of Paul A. Volcker as chairman of the U.S. Federal Reserve and the start of a new era of monetary austerity.

Initially, the implications of tighter monetary discipline were obscured by the inflationary effects of the second oil shock. Gearing up so as to finance stocks and capital investment seemed appropriate while inflation persisted at near record levels.

Inspired by strong markets, producers had in the meantime been actively engaged in increasing production capacity. The by now well-documented explosion in bank lending was of considerable assistance to them in this respect. Mining companies were able to point to the long-term appreciation in mineral prices as security against their proposed borrowing. Sovereign loans were advanced to developing countries in the belief that they were assured of repayment.

Aluminum, as the "metal of the future," attracted

heavy investment in new plant. Between 1973 and 1980 capacity increased at the rate of 3 percent a year.

Cocoa is another example of the effects of ambitious expansion plans. During the mid-1970s Brazil launched its "PROCACAO" program with the aim of doubling production by 1993. Since 1970 the area planted with cocoa in the Ivory Coast has more than doubled.

The inflationary expectations behind this behavior were finally dispelled by the double impact of the oil-induced recession and high interest rates. A yawning gap emerged between rising interest rates and falling inflation. All but the most financially conservative of producers and consumers were left exposed by the growing real rates of return.

The result was a classic end-of-cycle squeeze on commodity prices caught between rising production capability on the one hand and falling activity accompanied by destocking on the other. Since the beginning of 1981 the Reuters Commodity Index has fallen 11 percent. This may not seem all that severe but it must be remembered that the sterling-based index was bolstered by the severe weakness of the pound during this period. Thus the fall in the wider international value of commodities was considerably greater. This is borne out by the contrasting performance of the Economist's dollar-based Commodity Index. Partly because of the dollar's strength, this index fell by more than 30 percent over the same period.

The main purpose of the commodity agreements is to stabilize prices and so minimize the impact of cyclical downturns. The most conspicuously successful has been the International Coffee Organization. This organization enjoyed the important advantage of having all the major producers and consumers as its members. By imposing quota limits on members' exports to fellow members it was able to create a degree of supply tightness in a market that would otherwise

have suffered from the third consecutive year of surplus production.

Fundamental weaknesses have prevented the other organizations from enjoying the same success. For example, although the International Sugar Organization also uses export quotas, these are set at an unrealistically high level and thus do little to limit supplies. It is also handicapped by the fact that the European Community, the world's most important exporter on the free market, is not a member. The International Cocoa Agreement has suffered in a similar manner, since neither the world's largest producer, the Ivory Coast, nor the world's largest consumer, the United States, are members.

In some cases the apparent powerlessness of the commodity agreements to alter the course of events has so exasperated the producing countries that they have taken matters into their own hands. The most colorful instance of this occurred when a mystery buying group, reputedly backed by Malaysia, succeeded in forcing the price of tin on the London Metal Exchange up from \$6,500 a metric ton to more than \$8,500. The success of this operation was short-lived, since prices collapsed once the buying group departed from the market. Malaysia's unilateral decision to limit its rubber exports holds out some promise of a longer-term influence on prices.

The difficulty of maintaining prices in the face of the recession has prompted producers to give consideration to cartels, for example transforming the Inter-Governmental Council of Copper Exporting Countries into an OPEC-style organization. So far though, the Organization of Petroleum Exporting Countries remains the only effective cartel. The organization responded to the March declines in spot prices by agreeing to limit production to 17.5 million barrels a day. Although some members like Iran have been somewhat cavalier in their adherence to the agreed restrictions, the combined effect of the Gulf War and

drastic voluntary production cutbacks on the part of Saudi Arabia have been enough to prevent the cartel from disintegrating.

Moves to improve North-South relations and combat protectionism have been advocated as helping to prevent a recession in world trade. In the event, matters have tended to operate in the opposite direction. World recession has imperiled both causes.

As far as relations with the Third World are concerned, falling commodity prices have brought fundamental differences in attitude to the surface. Producing countries have argued in favor of maintaining prices at a "realistic" level in relation to production costs. The mainly conservative Western governments have argued in favor of letting prices fall to a realistic market level as being the quickest way to restore a balance between supply and demand.

The disputes that have arisen between the United States and Malaysia over the tin and rubber agreements illustrate the gap separating the two points of view. Because of its objection to the introduction of export controls, the United States refused to join the Sixth International Tin Agreement. For its part, Malaysia has repeatedly complained that U.S. sales of stockpile tin are having a disruptive effect on the market.

At the May meeting of the International Rubber Agreement, the consuming countries, led by the United States and the European Community, insisted on a 1 percent downward revision of the buffer stock price range. Producer delegates were incensed, arguing that even before the reduction, current prices did not afford

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Long-Term Oversupply Depresses Metals Prices

THE WORLD'S major nonferrous metals, aluminum, copper, lead, nickel, tin and zinc, are sitting close to their lowest levels since 1978 for some very good reasons: the recession that set in then has continued, usage has fallen, consumer stocks have been liquidated and attempts to curtail production have shown no real effect on prices.

This market is not the result of a minor cyclical movement. It is manifesting the effects, the very early effects, of long-term oversupply. These arose when the high-growth, consumer-led boom of 1960-1970 prompted a rash of new developments, which are now feeding into a less hungry demand cycle.

Each producer is faced with the same problem: the need to maintain output to sustain high debt-service levels. Some of these debts were incurred at fancy interest rates and with scant equity cover. The problem is compounded by the plight of major metal-producing countries, Mexico, Poland and Brazil among them, developing international liquidity problems, which force them to keep up a full head of production steam when common sense dictates a throttling-down.

The buck really stops with North America. Private enterprise metal producers cannot expect much in the way of support from their governments when the greater problems of oil and grain surpluses have a bigger impact on both cash flows and employment, so these producers have cut back. The nickel miners of Canada and the copper and aluminum primaries of the United States have, by a combination of short-time working, closures and tolerance of strike action, reduced output in the first seven months of 1982 by 20 percent in copper, 22 percent in aluminum, and measurably in zinc and nickel, over 1981. These cutbacks have had only a minor impact compared to rising market stocks (fed by non-American producers and liquidating consumers) and unbilled output from elsewhere. The imbalance remains and is growing.

The root of this market problem lies in the 1960s when an unprecedented growth in demand led, not

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This article was compiled by analysts of the Metals Research Unit of Shearson American Express Ltd.

COMMODITIES

Long-Term Oversupply Brings Prices of Major Metals to Lowest Since 1978

(Continued from Page 9S)

unnaturally, to optimistic forecasts of future consumption. In 1960-1970 alone, copper output increased 47 percent, nickel 93 percent and aluminum 127 percent. It prompted miners to prospect, develop and produce on the assumption of these rates continuing. They fell. The output continued, although consumption took a severe knock. Between 1977 and 1981, zinc was stagnant, nickel rose less than 2 percent, lead fell 8.5 percent, copper rose 5.5 percent and aluminum was static. The volume of discoveries and developments continued to grow.

We shall live with this problem until either:

- Sustained economic growth,

accompanied by a slowdown in development, occurs. The former is unlikely until well into 1983 at the earliest, and the latter may prove to be a political impossibility.

Capacity is deliberately removed on a permanent basis. The impetus would have to come from the major producing countries. With the exception of the United States, these are mostly dependent on mineral exports for their economic survival and will be unlikely to act without financial inducements.

The increased use of commodity futures and the floating and tradability of currencies and interest rates have guaranteed that volatility will be a permanent feature of the metals markets. This will create short-term upward price panic, but will not establish a permanent base for recovery. A slow process of attrition may occur in the producer sector, but even this will produce price benefits only if consumption improves. Most economic forecasts are now uncertain about any form of sustained recovery in 1983.

In spite of being the largest volume nonferrous metal, aluminum is still strongly attached to the producer price. The success of the London Metal Exchange contract, launched in 1978, has given a fillip to the free-market merchant trade and provided an outlet for the growing band of new producers who have no formal affiliations with the major primary refiners. The London Metal Exchange/merchant price equates to about \$950 to \$1,000 a metric ton, some 40 percent below the official U.S. price. It indicates the depth of the surplus, a condition confirmed by the near-collapse of scrap prices.

What caused the rot? The extreme growth trend—8.5 percent a year in 1960-1970—prompted the major expansion of refinery ca-

capacity in many producing parts of the world, traditional and new. Aluminum has found new markets in both consumer and capital sectors, both of which reacted rapidly when recession began to bite in 1978-1979. While established producing areas have either stabilized or reduced output temporarily, new centers have pressed on.

Australia has slowed a little in its ambition to reach two million metric tons (2.2 million short tons) a year during the 1980s while Japan has decided to curtail primary output radically on fuel-cost considerations. Primary aluminum is the most energy-hungry of the major metals and a combination of high costs and low prices has hit the producers hard.

The outlook is technically sound, but, as with copper, there are more than adequate sources established, developing and prospective, to satisfy economic recovery. The price outlook remains weak throughout 1983. Prospects of a recovery, perhaps a sharp one price-wise, are dependent on continuing restraint in production. Australia is refining its expansion plans and a recovery in the consumer sector.

The London Metal Exchange cash average of \$333 a metric ton (about 64 cents a pound) for the first nine months of 1982 is the lowest since 1978. Market-related peaks have pushed it to \$1,375 in 1980 and \$1,036 in 1981, but the broad sideways trend of 1982 is firmly held in by an immovable level of commercial stocks, a maintained volume of secondary recovery and a low level of consumption, thus nullifying sporadic attempts to curtail primary output.

The deterioration in 1980-1981 is apparent, with refined output rising at 25,000 metric tons a month, while consumption increased by only 12,000 metric tons

a month. The correction in 1982 is heartening, but the months ahead will prove a major test. Degrees of restraint in output have varied considerably.

The fall in the United States, a third from its February 1982 peak, has had a stabilizing effect, anguished by strikes and cutbacks in Canada. The price paid by the companies concerned has been heavy and there has so far been no compensating price increase. The North American companies will be forced to decide shortly whether to finance continued operating losses or to return to work in what will be at best a breakdown situation. There is little likelihood of the other listed producers showing similar restraint.

The technical outlook for the metal remains sound. There is some market erosion by fiber optics in the field of micro and short distance communication, but this is largely in the growth market area. Of larger concern is the determination of Chile and the Philippines to continue to expand at a serious rate. Australia has several major copper and by-product developments under way and Papua New Guinea has the Bougainville-sized OK Tedi deposit. Peru, Bolivia and Brazil are also expansion contenders. A question being seriously debated is whether the United States will begin to phase itself out of copper production in view of the increasing nonstrategic profile of the metal and high domestic production costs.

The first nine months of 1982 have seen a London Metal Exchange cash average of \$320 a metric ton, the lowest since 1976. It peaked in 1982 at \$372.5 in January and then slid down with zinc, its counterpart, to a 231 low in June. U.S. lead producer prices have moved in the 23 cents to 32

cents a pound range with Asarco as the market leader.

Lead consumption in the form of batteries, gasoline additives and solder depends heavily on the automobile industry and total Western world usage fell 3.5 percent in January to July. The underlying trend is toward lighter, smaller cars with long-life, maintenance-free batteries reducing the weight of lead per vehicle. However, lead mined output is up 10 percent with increases seen in Australia and particularly in the United States, where Missouri producers have been capitalizing on their high grade ores. Refined production is slightly down and stocks of lead concentrates have risen to match.

Eighty percent of world lead output is currently sold, at a loss and the secondary sector, which provides 40 percent of the total, has been hit hardest. Supplies of lead scrap remain tight with dealers disinclined to collect at low prices, and the U.S. secondary industry is operating at only half capacity. A succession of harsh winters and a rise in disposable income levels are needed to help lead out of the doldrums.

The London Metal Exchange cash average of \$293.5 a metric ton (about \$2.26 a pound) for the first nine months of 1982 is only \$15 below the 1981 average. However, U.S. producer prices have remained at \$3.29 a pound for the past year, unrealistically above free-market prices, which even in nominal terms are the lowest since early 1979. Nickel has had a hard 10 years, twice hit by oil crises and then again by the recession.

Almost every Western producer has made harsh cutbacks, particularly those mining the energy-hungry lateritic ores in New Caledonia, the Dominican Republic and elsewhere. However, even Inco and Falconbridge, mining

some of the lowest production cost nickel sulphide ores in Canada, have shut major operations for nearly six months. Despite this drastic action the combined inventories of the two companies total 71,000 metric tons, 14 percent of 1981 Western mined output. Nickel consumption is heavily dependent on the stainless and alloy steel market, which has suffered badly from stagnation in the manufacturing sectors of nations of the Organization for Economic Cooperation and Development.

Meanwhile, Eastern bloc nickel production is rising to reach 35 percent of world output by 1985. Confidence in the London Metal Exchange contract is low, largely due to the attitudes of major producers who prefer private price bargaining. We expect nickel to remain in the \$2,200 to \$2,500 price band in the short term and in fundamental oversupply for the next three years.

Following the market manipulation of 1979-1980, silver has fallen back into its subordinate role to gold. Its price ratio to gold has also widened from a traditional 25-to-1 to 35-to-1 range to a 40-to-1 to 60-to-1 band. The cash price subsided below 350 pence an ounce before recovering with gold to above 500 pence. The rate of increase of mine production has slowed recently, but this is a minor factor in market price levels. Both Poland and Mexico have further output ambitions and may be forced to adhere to these to maintain a flow of foreign exchange.

End-use changes have now slowed. Photography remains the majority user in spite of repeated claims of substitute materials. Coinage recycling has dried up, but commemorative jewelry and electronics remain strong. The outlook is that silver will remain sub-

ordinate to gold in the higher discount band, 40-to-1 to 50-to-1, but could easily narrow into the lower end, i.e., 40-to-1, if gold strengthens. Mined supplies will be threatened if the recession cuts further into copper, lead and zinc demand, where silver is a by-product.

Tin has now settled into a \$7,200 to \$7,500 a metric ton trading band after 12 months of price gyrations following the well-publicized market manipulation of 1981-1982. Prices on the Penang physical market in Malaysia have been stabilized in the range of 29.15 to 30 Malaysian dollars a kilo. Tin is the only commodity to have been successfully controlled by an international agreement between producers and consumers, effective since 1956. The sixth such agreement came into force on July 1, 1982, with tin export controls of 36 percent to apply to producing members over the last half of 1982 and beyond, to try to revitalize the fundamentals of a market sagging under the weight of oversupply. Commercial stocks of tin total 75,000 metric tons, 38 percent of world annual output, and the United States has committed itself to a three-year program to dispose of a maximum 30,000 metric tons tin surplus from its strategic stockpile.

There is an unusually wide separation of interests in tin, with over 75 percent of mined output in Malaysia, Thailand, Indonesia and Bolivia, but 65 percent of consumption centered in the United States, Japan and the European Community. It is an area ripe for North-South confrontation.

The recession and the price panic of February 1982 have underlined tin consumption, particularly in the price-sensitive packaging sector, with total Western usage

down 4 percent in the first quarter. The Buffer Stock Manager will continue to work hard to support London Metal Exchange and Penang prices, but we expect him to succeed in putting some confidence back into this battered market.

The London Metal Exchange cash average of \$434 a metric ton (about 33 cents a pound) for the first nine months of 1982 is only \$5 below the 1981 average and well above every annual average except for 1974; an anomalous year. Zinc saw a market-exaggerated concentrates squeeze in February 1982, which took it up to \$461.5 and fell in concert with gold to a \$418.5 low in June. U.S. producer prices have remained above London Metal Exchange levels in a broad band of 33 cents to 42 cents, with official producer prices elsewhere down from \$950 a metric ton in January to \$800 to \$850 now.

Consumer interest for zinc's traditional uses in galvanizing steel, cast components for automobiles and bronzes and brasses remains low with Western World usage down 6 percent in January to July. The United States has borne the brunt, with consumption down 25 percent. Mined production rose 4 percent, although refined zinc output fell 6 percent, showing restraint on the part of North American and European smelters and leaving the miners with mounting concentrate stocks.

The outlook is gloomy as producers struggle to retain their markets and EC smelters aim to finance closures of 10 percent of current capacity. Their efforts have been sabotaged by the sagging of Third World production, particularly in Mexico and Peru, as well as the marked downturn in the construction and transportation industries.

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World Price Decline Worries Soft-Commodity Producers

By T. Robinson

LONDON — The steady decline in the prices of coffee, cocoa, sugar and rubber in recent years has led to difficulties in many countries that depend on exports of these commodities for their foreign exchange earnings.

The fall in prices can often be traced to declining consumption, either as a result of the world recession or as a result of artificial pricing mechanisms in certain countries. This has been exacerbated by the fact that the same artificial mechanisms often encourage production at levels in excess of what would normally be undertaken.

The resultant excess of supplies has served, despite the intervention of international price-stabilization agreements, to keep soft commodity prices on the defensive since 1979-1980. In the case of sugar, its ready availability has kept the price to break through the support level established under the International Sugar Agreement. Prices are now below half of the minimum support price of 13 cents a pound.

The Cocoa and Rubber Agreements are experiencing some disarray as members decide on futures

mechanisms for controlling the market. In contrast, the Coffee Agreement is currently controlling the market in a very effective manner. Nevertheless, it is believed that the seeds of its demise may already have been sown. It is against this background that any analysis of the soft commodity markets in the 1980s must be placed.

The sugar price has exhibited fluctuations during the 20th century following its own basic economic cycle, which is now close to a low point. Despite the fact that most countries in the world contribute to world production of more than 90 million metric tons (9.9 million short tons), only some 15 million metric tons of sugar is traded on the world market on a regular basis. Hence, analyses of future prices for sugar must address themselves to the factors affecting this "free market."

Demand in the free market has declined recently because of recessionary problems around the world. More importantly, however, the decision of the United States to impose quotas on imports of sugar adversely affected the market at a time when many producers were hoping to increase their exports to that country. Alternative sweeteners, based on maize, are

likely to maintain their share of the sweeter market. On the production side of the equation, controls on exports by members of the International Sugar Agreement have to some extent limited supplies, but at the cost of large stockpiles of sugar in those countries.

The outlook for the future price of sugar rests on finding a solution to the above problems. Shortfalls in projected oil revenues have affected many countries' trade balances. Consumption in developing countries is unlikely to increase as rapidly as it did as a result of the low prices in the mid-1970s, because of their debt problems. In the developed world, too few countries are paying world prices for sugar because of the abundance of duties and tariffs imposed to protect the price for domestic farmers. Thus prices to the consumer are still high, keeping consumption in check. Decreases in consumption are forecast for many developed countries in the coming season.

Meanwhile, production, fostered by the high prices paid to farmers by many countries, will continue its upward trend. Certainly several more years of surplus are ahead of the sugar market unless consumption can be encouraged in the two

large "dark horses," the Soviet Union and China. Even so, world stocks are now very high and it is feared that it would take either a severe crop disaster or several years of lower production to get prices back to the minimum level of the International Sugar Agreement.

In contrast, the cocoa market appears to be heading for its first projected deficit since the 1976-1977 season. The major production problem lies with the third largest producer, Ghana, where a steady deterioration in the cocoa-growing economy since the mid-1960s has led to progressively smaller crops.

Although demand is expected to increase slightly in the next few years, the main center of interest in the cocoa market is the International Cocoa Agreement. Apart from a buffer stock of 100,000 metric tons already built up under the agreement, a loan of \$75 million has been obtained from a consortium of Brazilian banks in order to increase the buffer stock. At present prices, less than 40,000 metric tons could be purchased with this loan. This will make only a small dent in world stocks, which are estimated at close to 700,000 metric tons, equivalent to more than five months usage. Nevertheless, the existence of this potential support operation is keeping prices higher than would normally be expected given such large stocks.

A small deficit in the current season will ease the problems of the continued buildup of world stocks, but it is felt that as supplies are not remotely as tight as in the last bull market in 1978, any major move will be downward if the individual members of the agreement start openly to break its rules, or if future surpluses appear. Overall, the short-term outlook for cocoa is for a quiet market, trading within a fairly narrow range. In the longer term the presence of the current large stockpile is likely to depress the price despite the efforts of the International Cocoa Agreement.

Frost is a major factor in the coffee market. Whenever frosts have occurred in Brazil, the potential decrease in supplies has caused major increases in world prices.

The impact on users of the coffee market has been such that nowadays the market price can be very volatile during the critical months on the fear of frost alone.

Coffee is still in the throes of a bear market that started in 1979. The strength of the market in recent months contrasts with this trend. This strength has centered on the controlling influence of the International Coffee Agreement, which tries to limit price movements to within the band of 120 cents to 140 cents a pound based on an "indicator price."

At recent negotiations a maximum world export quota was set at 56 million bags, split equally into four calendar quarters, beginning Oct. 1, 1982. Some analysts feel that not only is this up to two million bags too large, but that its equal division will create a tight market in the first two quarters followed by excess supplies in the second half-year. This roller-coaster method of controlling the world price did, however, work during 1981-1982 and may well be successful again in the current season.

Coffee is now entering another period when excessive stocks are being built up. Ironically, this is to the benefit of nonmembers of the agreement. Importing members of the International Coffee Agreement have to pay the agreement's high price for coffee, but non-member importers can take advantage of present high stock levels to demand a price reduction. A two-tier market has thus been created with nonmembers buying coffee at about half price.

Unless the agreement controls quotas tightly within a quarter, there is a risk that it will be unable to maintain prices above the minimum level through the middle of 1983. Further, there is the danger that if the price falls below this minimum level, members will pursue individualistic policies with regard to world sales, which may result in a major fall in prices.

Rubber is unlike the previous soft commodities as it responds very closely to the world recession. The motor industry is its largest consumer, via tires and tub-

ing, and this has been one of the worst affected areas in recent years. Activity on the markets in London and the Far East has been reduced to a bare minimum and price fluctuations are small. Although production and consumption have traditionally moved closely together, this has not been the case recently.

The International Rubber Agreement's Buffer Stock Manager has now purchased more than 200,000 metric tons, but there have been proposals by some Far Eastern countries to set up their own buffer stock of another 350,000 metric tons. Malaysia was the major force in this plan, but Indonesia and Thailand were unwilling to implement it.

The International Rubber Agreement has been successful in maintaining higher prices than would have been expected on fundamental grounds alone. However, downward revisions in Chinese demand, coupled with a continued bleak outlook for the automobile industry around the world, mean that there is little prospect for higher prices in the rubber market in the near term.

In summary, the outlook for the four commodities is for prices to remain at present levels or become depressed even further. There is the possibility, indeed likelihood, of minor upward movements at regular intervals as rumors circulate of major buyers entering the market. Nevertheless, the ready availability of supplies should promptly fill the potential demand.

As in many other industries a concerted move by the world's economies will help the commodity markets to move higher. In the short term, however, the opportunities for higher prices appear strictly limited. This in turn implies that the prospect of many developing countries experiencing an improvement in their balance of payments problems is slight.

T. Robinson is Head of Commodity Research, E.D. & F. Man Ltd.



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COMMODITIES

Erosion of Grain Prices Expected

By Terence C. Bird

LONDON—There is little prospect of a bull market developing in grains. Prices will probably erode further through the winter months. U.S. support measures for corn and wheat are grossly inadequate for the current crops as many farmers are ineligible for participation. American soybean farmers on the other hand should benefit more from the support program, but here again a sustained bull market appears unlikely.

The Soviet Union is, as always, a major factor in world supply and demand for grains. It has just suffered another disastrous crop. Moscow rarely makes poor grain production figures public. However, favorable weather recently has probably increased the crop size to a level above the current U.S. Department of Agriculture's estimate of 170 million metric tons (187 million short tons). The department's estimate of a Soviet import requirement of 40 million metric tons is guesswork. It is difficult to assess how much a country needs when you do not know how much the country started with, produced or can afford.

Although President Ronald Reagan has offered to sell the Soviet Union 23 million tons of grain, the Russians have not forgotten former President Jimmy Carter's ill-fated grain embargo against the Soviet Union. As a result, the Russians have been slimming the U.S. grain market. Moreover, other countries have bolstered production to levels that accommodate the bulk of the substantial Soviet import requirement. This puts U.S. producers in a difficult bargaining position as they are currently harvesting bumper crops.

The Russians are very experienced and extremely clever grain buyers. If the steady erosion of U.S. grain prices continues, it is conceivable that we will see a Soviet buying spree at bargain prices. The Russians need to rebuild their dwindling stocks, which have

been reduced by the recent poor harvests. However, this is no great consolation for U.S. producers in the near term.

Canada, which is also reaping bumper crops, has recently concluded a sale of 7.6 million metric tons of grain to the Soviet Union. This sale exceeds the amount called for under the Canadian-Soviet long-term agreement. It nearly equals the total amount sold last year.

France has recently sold more than 500,000 metric tons of wheat to the Soviet Union. It is very likely that further sales will take place and a long-term France-Soviet Union grain agreement is almost a foregone conclusion.

The United States has, at least for the moment, lost its biggest grain export market. It is likely that the Soviet Union will try to squeeze U.S. suppliers. Before making purchases above the 6 million metric ton minimum requirements under the recently extended U.S.-Soviet grain agreement, the Russians will probably demand lower prices, favorable credit arrangements and guaranteed delivery. In any event, purchases in excess of the minimum are unlikely until the Russians have an idea of the size of their 1983-1984 crop.

There is no reason why the Soviet Union should negotiate a new long-term agreement with the United States, although it will probably do so for political reasons. In any case, U.S. grain producers will be left with a large proportion of the world's carryover stocks. The Russians will probably keep their options open. A further extension of the agreement is likely if the Soviet foreign exchange position improves.

Terence C. Bird is a grains specialist at E.F. Hutton.

Gold Prices Expected to Stay Steady

(Continued from Page 9S)

papered over while a durable solution is sought. What this solution will be I do not know, but I feel it must involve a reconstruction of long-term debt and some painful write-offs. The effect of this will tend to lower world growth rates by making both borrowers and lenders more cautious and keep interest rates at real levels and inflation down.

Central bankers are certainly aware of the problems. The Bank for International Settlements estimated earlier this year that about \$200 billion of loans were of doubtful or dubious quality. A central bank associate who attended a recent BIS meeting put it rather well when he reiterated that the mood of the central bankers was that international banking was "too important to be left to the bankers."

As for an oil price explosion, I could simply point to the present world supply situation; underutilization of capacity in many producing countries and the less-than-robust economic outlook for the OECD area in 1983. Also of interest is the fact that, compared with 1973, OECD economies on average now use about 16 percent less energy per unit of gross national product and about 26 percent less oil.

To conclude, it is worth re-emphasizing that gold has to compete with other monetary assets and investments. The much talked about "flight to quality" has included some gold buying, but it has principally consisted of money going into U.S. government bonds, corporate paper or just plain dollars on deposit. I still see gold having to compete against the stronger attractions of real returns over the next year or so and I do not see a situation during that time in which investment demand for gold heavily outweighs the supply of new-mined gold.

This is not to say that gold will not be a good trading market over the coming year. It should be. Futures markets often turn over 40 to 45 times the annual supply of new-mined gold. There are lots of bear and bull points that can be talked about endlessly to clients. And lots of money to be made and lost. But I am still not a super-bull.

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Gold Futures: The Six-Month Mark

By Peter Grange

QUESTION: Do big, empty houses scare you? Answer: "Not me. I used to trade London gold futures."

And that, with apologies to Bob Hope's gag about the years he spent in vaudeville, could have been the response of some members of the London Gold Futures Market during its first six months of trading.

The market opened last April amid fanfares and publicity. The idea was to cash in on the boom in gold futures in the United States, using London's geographical advantage as the link between Far Eastern centers and the big markets in New York and Chicago.

Speculators in gold futures need only put up a small part, normally 10 percent, of the total value of a contract to buy or sell 100 oz. of fine gold (current cost around \$45,000). In order to participate cheaply in the most glamorous and volatile market of them all. Those who read the market correctly, or who are simply lucky, can make a lot of money. On the other hand, if they get it wrong the leverage works against them.

As the only market in gold futures in the European time zone, London was hoping to attract the big players from the Middle East and Switzerland. So far it has been notably unsuccessful and there now appears to be a crisis of morale among its members.

Bad enough that the international speculators have stayed away in droves, but when the 25,000-seat members start wandering off, maybe references to vaudeville are not too remote. The market committee felt obliged to announce recently that any member-company failing to maintain a presence on the trading floor would, after three warnings, face a fine of £1,000.

This highly unusual stricture will no doubt put what London's theater managers refer to as "bums on seats." It also indicates a splendidly authoritative lack of confidence in the other steps taken to try to raise the level of activity on the London market. The committee has also proposed the lifting of a three-year ban on the sale of seats; several members are thought to be less than enchanted with the London market, although it is fair to say that some of the smaller ones were probably out of their depth from the outset.

But the main reason for the disastrously low-level of interest was the decision to trade a

sterling contract. That decision was set aside only a few weeks ago when the 49-strong membership voted unanimously for a dollar contract. Whether or not the change to dollar prices will of itself be sufficient to revive the market is now the one-sixth-of-an-ounce, dollar-priced question.

Paul O'Hanlon, executive director of Citifutures Ltd., a subsidiary of Citicorp, New York, said: "If the market can sustain a volume of 1,500 contracts a day then there is some hope. But we would have to see around 2,500 a day before anyone could claim the market was established." As things stand, it could prove a long haul, although not so long as the 5,000-a-day forecast for November volumes made by the market's chairman, Keith Smith, back in the Spring.

Trading volume on the London market slumped from an average of 1,282 contracts a day in April to 316 a day in September. By way of comparison, the daily average of contracts traded on the New York Commodity Exchange, the big daddy of gold futures markets, rose from 47,000 to 55,600 during the same period, stimulated by the dramatic increase in the price of gold between mid-June and September.

If there is anything surprising about the poor performance of the London market it is the absence of surprise among the members themselves. Indeed, there is a marked air of resignation about some of them. But then some were predicting doom and gloom long before the market rose to its knees in April.

When the working committee set up to design the structure of the market opted for a contract priced in sterling, there were loud rumblings of discontent from would-be members and supporters alike. They felt the committee was flying in the face of just about the only clinical fact attaching to the price of gold: it is universally quoted in dollars.

The critics argued that the additional transaction across sterling-dollar currency rates would coarsen contract prices and deter private investors, particularly those from abroad. Countering the committee's claim that futures markets outside the United States were only active when contracts were priced in local currency, they pointed to the success of the London Petroleum Exchange, which had elected to trade a dollar contract.

Some opponents of the sterling contract

went further and attacked the working committee for succumbing to an obvious ploy by London's big five bullion houses, joint sponsors of the London Gold Futures Market along with the London Metal Exchange. The bullion houses, it was suggested, were more interested in protecting their own dollar-priced market than in fostering a possible competitor. The charge was dismissed at the time as emanating from "commission houses and one or two members of the London Metal Exchange."

Notwithstanding the change to a dollar contract, the London Gold Futures Market could yet find the London bullion market a major obstacle to its development. If so, there could be no complaints about it. "The bullion market is simply too big and too efficient for the LGFM to compete," a specialist in one of the leading commission houses said. "The forward market in bullion has already got all the big investors from Switzerland and the Middle East, and if they can't be tempted away, where are the customers for London gold futures? Are they going to create them?"

The point is underlined by a thorny problem, the answer to which could be crucial to the market's development: what hours should the market trade? London markets enjoy the advantage of being on the Greenwich meridian, which means it is possible to link up with other world centers in the same day. But even this advantage is somewhat diluted in the case of the gold futures market as there is no consensus as yet about the most suitable hours.

There are three different views in the market. Some members want an early opening to coincide with trading hours on the bullion market — 8.30 A.M. local time — and a 3.30 P.M. close, which would allow a small overlap with the New York Commodity Exchange. Others would like to see a much more extensive overlap with New York, which would mean opening at 11.30 A.M. and closing around 9 P.M. The third group wants to keep the hours as they are, 9.30 A.M. to 5 P.M.

The discussion looks set to continue. Mr. Smith said: "Until there is an overwhelming case for changing the hours, the market should stand on its own feet and keep to the hours best suited to the European time zone."

Peter Grange is a journalist specializing in financial matters.

Chances of a Solid Market Upturn

(Continued from Page 9S)

ford an adequate return to the thousands of smallholders producing rubber.

Despite the continuing impact of the recession, there has been a perceptible improvement in market sentiment in recent months. Several factors are behind this change.

The lowering of U.S. interest rates has dampened investors' enthusiasm for cash deposits. Furthermore, there is growing concern that a banking crisis will arise as a result of debt problems around the world. High grade bonds have been the prime beneficiaries of the resulting "flight to quality," since they offer security of repayment and a stable income.

Other markets have benefited from the concern for quality. Tangibles have enjoyed something of a return to favor since they constitute assets that are not someone else's liabilities. Among commodities, precious metals have experienced the best rallies because of their traditional monetary role.

There are also some signs that the cyclical pressures on prices are beginning to ease. Consumer destocking

is thought to have nearly run its course, partly because falling interest rates are lowering stockholding costs. Also, processors have seen their margins improved by the falling cost of raw materials. They are under increasing pressure to protect these margins either by increasing stocks or by making forward purchases.

The other side of the coin is that falling prices have affected production levels. This process has been most pronounced among Western producers of base metals. By June this year, U.S. production of copper ore, for example, was down 38 percent from the level a year ago. Japan, because of its dependence on expensive energy imports, has made a strategic decision to substitute a large proportion of its refined aluminum production with purchases from abroad.

Whether these hopeful omens will develop into a solid market upturn is still open to question. There will need to be evidence of either a sustained increase in industrial activity or of a return to rising inflation before the current steadiness of the markets looks convincing.

Money Markets Geared for Futures Boom

(Continued from Page 9S)

lets. At best, the new law is redundant. At worst, it will invite derision by foreign traders." John Gaine, a Washington attorney who is also a former commission staffer, said: "I've talked to people in England, France and Germany. The concept of a broker giving out the name of a customer is alien to them. They fear the information could find its way to the Internal Revenue Service or the Central Intelligence Agency."

But Mr. Gaine thinks the new commission rule will not be used much. Instead, he sees continuation of

the trend started by the August 31 agreement between the Securities and Exchange Commission and the Swiss government to disclose certain information to U.S. regulators who have evidence of market manipulation or other trading abuses. The SEC policy does not affect futures trading, but Mr. Gaine thinks a similar agreement will be a goal for the trading commission.

Apart from such regulatory clouds, futures industry leaders see no impediment to growth. In Chicago and New York, they see London's financial exchange as bringing new players to the field.

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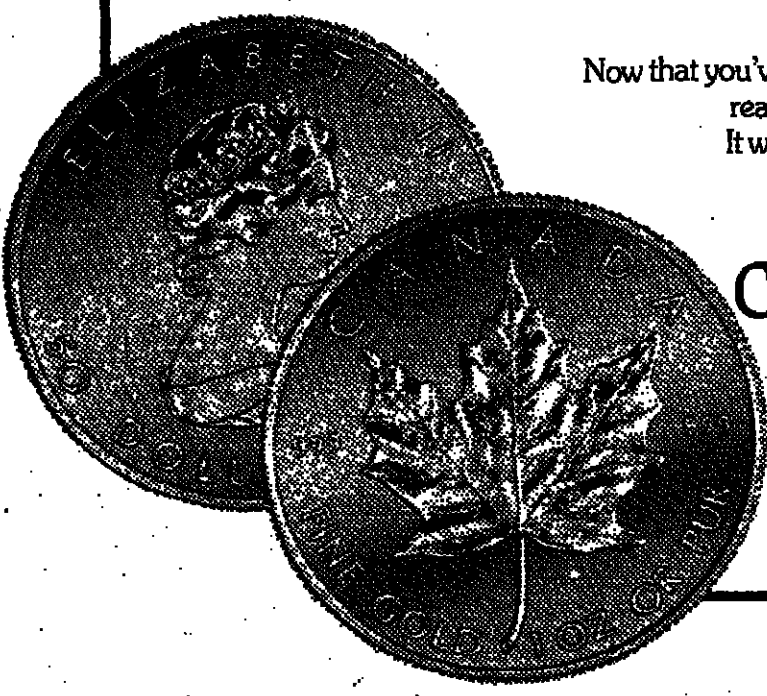
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ARTS / LEISURE

Billy Joel Comes Up With Song for Vietnam Vets

By Robert Hilburn
Los Angeles Times Service

LOS ANGELES — Pop music was a haven in the '60s for anti-war expression. Bob Dylan, the Beatles, Joan Baez and Country Joe McDonald were among artists who joined in the cry.

But musicians were mostly silent during the '70s about the emotional scars left by the United States' Vietnam involvement. They've only recently begun to reopen this delicate wound.

The Charlie Daniels Band's "Still in Saigon," a modest hit last spring, and Stevie Wonder's "Front Line" are both unsettling reflections about the aftermath reported by many Vietnam veterans.

But the most striking reflection is "Goodnight Saigon," an "American Pie"-ish look at the Vietnam experience that is as uncompromising a social portrait as pop has given us in years. Significantly, this record isn't by an aggressive rocker or someone normally asso-

ciated with protest music. It's by Billy Joel, who has been a mainstream radio favorite for years because of his ability to come up with safe, snappy tunes.

But it's doubtful many stations are playing the downbeat "Goodnight Saigon," which opens with traditional military bravado:

*We met as soul mates on Parris Island
We left as inmates from an asylum.
And we were sharp, as sharp as knives
And we were so gung-ho to lay down our lives.*

Gradually, however, disillusionment and despair set in:

*Remember Charlie, Remember Baker,
They left their childhood
On every one
And who was right?
It didn't matter in the thick of the night.*

Joel, who admits he dodged military service by lying to his draft board, said he wrote the song partly out of guilt. He also wanted to job others to stop treating many Vietnam veterans as outcasts.

"I'm trying to say that we should all face up to what happened in Vietnam and show more compassion to the people who served there."

Joel objected to the Vietnam War on political grounds, he said, but he didn't join the anti-war movement. Rather than refuse to serve in the U.S. Army on political grounds, he lied to his draft board, claiming he was his mother's sole support.

He explained, "I just made up some ridiculous, inflated figure for his income at the time, and they gave me a temporary deferment. Then, some of the files in my draft board got burned. I guess it was arson. I didn't hear from them for about a year."

"When they took out my file, it was burned around the edges. I remember standing there, thinking, 'Christ, I just missed being burned into oblivion by inches.'"

At that point, Joel was classified I-A, and he figured he'd be called up. But the lottery system was initiated, and he gained a reprieve.

"The lottery stopped at 196 and my number was 197. It was the luck of the draw. Can you imagine? Just one number away."

Does Joel now feel sensitive about speaking for the Vietnam veterans in light of his actions?

"Sure," he replied. "I started writing the song about three years ago, and I wasn't sure of what I was going to say. I spoke to a lot of friends and other people who had been there. They were reluctant to talk about it at first, but they grad-



Billy Joel

ually loosened up. A certain distance has gone by."

The United States did want to hear about Vietnam and soldiers in 1966. That's when Staff Sergeant Barry Sadler's "The Ballad of the Green Berets" became the biggest-selling single in the country.

Sadler, a combat veteran, believed in his song so much that he used all his savings to buy a ticket to New York, where he made the rounds of publishing houses, finally snagging an RCA Records pact.

An immediate success, the song led to an Ed Sullivan TV show appearance for Sadler and an initial royalty check that reportedly was for \$250,000. But the attention soon faded. A follow-up record, "The 'A' Team," made it to No. 28 on the charts in 1966, but it was the last time Sadler's name appeared on the pop charts.

John Prine's "Sam Stone" was one of the few songs in the '70s to touch on the plight of returning Vietnam soldiers. It's a mournful folk-country look at a man who becomes a drug addict trying to escape the physical and psychological damage inflicted by the war.

Though "Sam Stone" remains the most eloquent song on the subject, it wasn't until Daniel's recording this year of "Still in Saigon" that the U.S. Top 40 again acknowledged the Vietnam experience.

Written by New York country-rocker Dan Daley, "Still in Saigon" is far from the romanticized slickness of Sadler's "Green Berets." Though much of its urgency is offset by a catchy, sing-along arrangement, the song remains a gripping tale of psychological disorientation:

*The ground at home
Was covered with snow
And I was covered with sweat
My younger brother calls me a killer
And my daddy calls me a vet . . .
All the sounds of long ago
Will be forever in my head
Mingled with the wounded's cries
And the silence of the dead.*

The irony was that Charlie Daniels had a big country-flavored hit

in 1980 called "In America," a far-to-the-right slice of homespun patriotism.

Asked about a possible contradiction between the lamenting "Still in Saigon" and the resolute "In America," Daniels replied at the time, "Saigon" is about millions of veterans who came back, and it was as though the country didn't want to admit they ever existed. I don't think the songs are different. I think both songs are patriotic."

Stevie Wonder's "Front Line," which is featured on his recent "Original Musiquarium I" album, is also a stark tale whose message is softened slightly by colorful musical trim. The lyrics, however, are unflinching:

*My niece is a hooker and my nephew's a junkie too
But they say I have no right to tell them how they should do
They laugh and say, 'Quit braggin' 'bout the war you should have never been in'
But my mind is so brainwashed I'd probably go back and do it again . . .*

Daniel's "Still in Saigon" single sold about 300,000 copies, but the record faced resistance from a hefty percentage of radio stations, reported a source involved in the "Still in Saigon" situation.

"We kept getting told that people [listeners] had problems with the record — that some considered it a novelty, that others get tired of anything with a message in it and so forth," the source noted.

Joel's tune is a far bigger long shot for a hit single because it lacks the catchy hooks and other winning pop elements that made "Still in Saigon" even partly acceptable to programmers. The Joel song is relentlessly stark. Even if never released as a single, "Goodnight Saigon" will be widely heard because Joel's album, "The Nylon Curtain," based on his past sales, should sell several million copies.

'Hard Shoulder' Is Good Fun

By Sheridan Morley
International Herald Tribune

LONDON — At the Hampstead, "The Hard Shoulder" signals the arrival of an intriguing new writer in Stephen Fagan. His play is ostensibly about a got-rich-quick wine merchant (played by Peter Blythe with marvelous twitchiness) who decides to go in for property speculation around

THE LONDON STAGE

the nether regions of north London only to find himself intricately embroiled with a motorway, a squatter, a fireman-builder and assorted planning applications. But what makes Fagan so interesting, apart from having taken up a dramatic position halfway between Mike Stott and Alan Ayckbourn, is that he's not giving us a treatise.

This is not, contrary to first appearances, a socially conscious comedy about motorway blight or the perils of capitalism or the rights of tiny people caught up in events they can only hope to influence through arson. It is conceived, believe this or not, primarily to entertain and to convince through its own stage presence, regardless of any larger issues involved, and that is what makes it such a rarity at the moment.

Alas Fagan doesn't have much of a conclusion (indeed his final scene is a bizarre lurch into an altogether different play) but along the way he has and gives a lot of fun, and for that we should be grateful.

Once in a mercifully long while you come across a thriller so devastatingly and breathtakingly viable that its mysteries have nothing at all to do with the plot. The mysteries surrounding "Mr. Fothergill's Murder" (at the Duke of York's, but probably not for long) are, in no particular order, these: How, even in the worst theatrical season in memory, could a play like this find its way into a professional West End theater? How could a cast featuring Frank Windsor and the unforgettably named Rula Lenska bring themselves to do it not just in London, but for five months on the road, without applying to Equity for remission on the ground of good behavior, the latter to include not breaking into fits of uncontrollable giggles when asked to utter lines like "You know I never use the 12-bore these days except for the pigeons?"

Apparently compiled from off-cuts of "Sleuth," "Deathtrap" and "Dead of Night," "Mr. Fothergill's Murder" is presented in the West End by its director, David Kirk, which suggests a rare bout of

intelligence on the part of the other 30 members of the Society of West End Managers. It is written by Peter O'Donnell, who has scored a considerable and deserved success as the creator of "Modesty Blaise," but seems about as well suited to playwrighting as Iken was to the strip cartoon.

The cast did manage that look of faint terror required by all thrillers, and doubtless achieved in this case by having read the second act, which featured such lines as "Did you get the insulin in?" and, my own favorite, "Can you listen out for conversations?" There were a few to be heard, mainly I fear from the normally long-suffering West End premiere audience, many of whom were kind enough to stay away after the intermission.

To judge by the number of missed entrances, dropped props and fluffed lines on the night I witnessed it, "The American Dance Machine" at the Adelphi, is in severe need of an overhaul. The idea here is the museum-like preservation of Broadway choreography from the past by a team of 20 American dancers who recreate supposedly classic moments from shows stretched across the 30 years that separate "Boyz n the City" from "Barbra." As a celebration of what the U.S. theater does best, and as a reminder that in America it's possible to get a funding grant for almost anything as long as you call it history, that idea might just have worked.

But since we have here a distinctly second-string troupe of dancers who look as though they've been touring the Midwest in a summer stock revival of "Plain and Fancy" for too long, the idea falls apart on stage with considerable speed. Quite apart from the fact that the linking narrative is embarrassingly ill-conceived and underwritten, there is something irredeemably tacky about almost all of the routines they have chosen to preserve. Nothing from "West Side Story," nothing from "Guys and Dolls," nothing from "Company," nothing even from "Oklahoma," nothing from any of the shows that have genuinely moved the Broadway musical forward in any way. Instead of landmark choreography we get tired routines from "Cabaret" and "Bye Bye Birdie" in inadequate imitation of the original, a cheap reminder of why Americans can never do "The Boy Friend" and why "Walking Happy" was such a disaster, and an appallingly arch commentary by Barry Preston and Zan Charisse.

"The American Dance Machine" does the best curtain calls in London, but they bring to a thankful end an evening of the wrong dancers in reminders of the wrong shows, and the result for anyone who believes in the greatness of the Broadway musical is a profoundly depressing experience.

The Sweet Memory of Honey in the Comb

This is one of a number of columns Waverley Root completed before his death.

EVERYBODY knows that one of the phenomena of old age is a shift in the focusing of memory; you forget what you did yesterday, but you remember, in details long forgotten, what you did in childhood. What everybody knows is not always true, but at 79 I can attest that this account is accurate. Apropos of the instant oblivion visited upon present actions, I read recently in E.B. White's letters that he was obliged to devise a system of warning to prevent him from taking pills twice or even oftener, with possible harmful effects. I have had similar troubles myself, so it was comforting to reflect that Mr. White's lapses of memory did not prevent him from continuing to write like an angel; indeed he continued to write like an angel until he became one. On the other count, I find memories welling up into my mind from more than half a century ago. It is surprising how many of them are memories of food.

One which has been asserting itself lately is of the square boxes of which there were always one or two on the pantry shelves of the house I occupied between the ages of 10 and 20, sometimes of flimsy wood like that used to make

Camembert boxes, but whatever the packaging, the content was the same — a food not really meant to be eaten alone, but I used to slide it out of the box and bite deep into it with delight. It was honey in the comb. I have not seen honey thus presented for decades, but it was the normal way to put it in my youth.

I do not know why honey in the comb was so much more satisfying

de/More than a little is by much too much. But Shakespeare did manage to draw from this quality of honey a lesson in prudence. "The sweetest honey/Is loathsome in his own deliciousness/And in the taste confounds the appetite;/Therefore, love moderately." This advice, which occurs in "Romeo and Juliet," was unfortunately not followed.

By eating honey in the comb, I

The suspicion has been voiced that one reason why honey producers shifted from selling it in the comb to selling it in jars was that honey in the comb is not easy to adulterate.

than honey out of it. It must have been a question of texture. The crunchy wax added a certain robust quality to the honey and saved it from being cloying, which honey can become. "The very honey of all earthly joys/Does of all meats the sweetest cloy," as Abraham Cowley pointed out two centuries ago, though I believe he had a different sort of honey in mind. A writer somewhat more esteemed recorded in the first part of "King Henry IV," "They surfeited with honey, and began/To loathe the taste of sweetness, whereof a lit-

necessarily ate beeswax too. I never noticed that beeswax added any flavor to honey and I doubt if it added nourishment either, but the Encyclopaedia Britannica contradicts me on the first point, and I am not sure whether it does or not on the second. "Beeswax is a yellowish solid of agreeable, somewhat honeylike odor and of a faint balsamic taste," it says, but I am unable to determine whether it offers anything to human chemistry from a second bit of information: "Beeswax consists chiefly of free cerotic acid and myricic (Miricil

palmitate), with small quantities of other higher fatty acids, and alcohols, and about 10 percent of hydrocarbons."

It is possible that the trouble with the combless honey was not that something had been taken out, but that something had been put in. The suspicion has been voiced that one reason why honey producers shifted from selling it in the comb to selling it in jars was that honey in the comb is not easy to adulterate. Once it has been extracted it is a simple matter to alter the resulting liquid and increase its salable volume by stretching it with glucose, gums or starches less expensive than honey. A less mercenary influence may have been the improvement of jars and of the methods of filling them. The demand for comb honey petered out after World War I, partly, perhaps, because the laws which protected consumers against adulteration were being enforced with increasing efficiency, so that combless honey improved in quality.

As for the Bible, it is as thick with honeycomb as Caliban. When the revereend Charis appeared at Emmaus, according to St. Luke (24:42), "And they gave him a piece of a broiled fish, and of an honeycomb." A comparison in Psalms 19:9-10 rates it high indeed: "The judgments of the Lord are true and righteous altogether. More to be desired are they than gold, yea, than much fine gold: sweeter also than honey and the honeycomb."

The honeycomb appears also in more dubious contexts, for instance in Proverbs 5:3-4: "For the lips of a strange woman drop as honeycomb, and her mouth is smoother than oil. But her end is bitter as wormwood, sharp as a twoedged sword."

This is tangential to a whole category of uses of the word "honey" in literature, usually expressed more subtly than by Albert H. Fitz when he wrote, "You are my honey, honey-suckle, I am the bee." But this transcends the domain of gastronomy, and therefore does not concern us here. Besides many connoisseurs of this type of honey hold that it is better out of the comb.

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BUSINESS BRIEFS

Philips Buys Stake in Appliance Firm

EINDHOVEN, The Netherlands — N.V. Philips said Tuesday that it has acquired a minority interest in the household appliances activities of West Germany's Bauknecht group.

The agreement involves setting up two companies in which banks and other financial institutions will hold the majority interest. One of the new companies, Bauknecht Hausgeräte GmbH, will handle German operations from its base in Stuttgart. The other, Bauknecht Holding BV of Oosterhout in the Netherlands, will control activities elsewhere in Europe.

A Philips spokesman declined to disclose the value of the transaction or specify which banks and financial institutions hold the majority stake in the new companies. He said Philips will gradually acquire a majority interest in both companies.

Japan's Shipbuilding Orders Plunge

TOKYO — Orders received by Japanese shipbuilders in the first half of the year ending March 31 declined 60 percent from the level of a year earlier to 1.95 million gross tons, the Transport Ministry announced Tuesday.

The orders for the April-September period were valued at 464.2 billion yen (\$1.68 billion), down 54 percent from a year earlier, the announcement said. The decline was attributed to the worldwide shipping slump.

Deutsch Texaco to Drill in Baltic

WHITE PLAINS, New York — Texaco said Tuesday that its West German subsidiary plans to drill for oil in the Baltic Sea at a cost of \$148 million.

Texaco said that Deutsch Texaco, which shares the Schwedeneck-See field with Wintershall of West Germany, will install two permanent platforms in the area and drill 14 wells. Production is expected to start in late 1984.

The field was discovered four years ago and lies about 5,000 feet (1,500 meters) beneath the seabed.

Trafalgar Housing Asserts Health

HONG KONG — Trafalgar Housing Ltd.'s financial position remains strong, group chairman Wu Chung said in a statement Tuesday.

Mr. Wu said the company's majority shareholder, Central Enterprise Ltd., continues to record initial project costs on its own books, which largely insulates Trafalgar from the risks of development. He said Trafalgar's diversified nature will prevent it from over-dependence on the property market.

Some Hong Kong property companies recently have reported liquidity problems caused largely by a fall in real estate prices.

Thyssen Cuts Workweeks of 3,800

DUISBURG — Thyssen AG put 3,800 more workers on reduced workweeks this month to bring the company's total number of workers with that status to 18,866, a company spokesman said Tuesday.

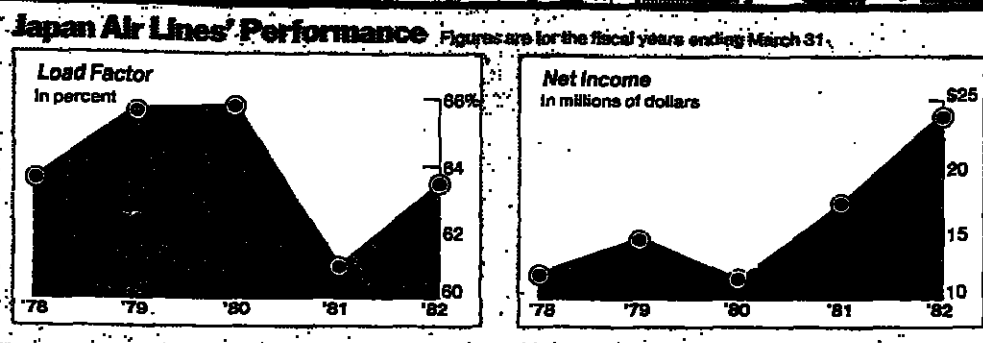
Most workers affected at the plants in the Duisburg area will have a workweek of between 14 and 36 hours, he said. Thyssen has a total workforce of more than 34,000.

Honeywell to Reduce Staff by 1,850

MINNEAPOLIS — Honeywell said Tuesday that its information systems business will reduce its work force by about 1,850 by Dec. 2 in an attempt to improve its "competitive position in the market."

The diversified computer maker said reductions will be achieved through a combination of layoffs, early retirements and transfers. Honeywell said affected employees will receive financial aid based on years of service.

Compiled by Our Staff From Dispatches



JAL Seeks Own Fuel Supply As Weak Yen Blooms Prices

By Pamela G. Hollie

New York Times Service

TOKYO — Every time the U.S. dollar rises by 10 yen, the fuel bill for Japan Air Lines increases \$20 million a year because the fuel is priced in dollars.

Thus, the slumping yen — at the time of a decline in worldwide air traffic and a poor performance in Japan — has made the carrier extremely cost-conscious.

The airline, which is the third-largest carrier internationally after Pan American and British Airways, earned the equivalent of \$23.9 million in the fiscal year ended in March on revenue of \$3.14 billion.

Since then, the yen has declined 13 percent against the dollar, and in the first five months of the new fiscal year, the airline had losses of \$12 million. Airline executives say an improvement in profits depends on fuel savings.

In 1960, nine years after the company was formed, aircraft fuel costs accounted for just 15 percent of the company's expenses. In 1970 fuel expenses had dropped to 10 percent.

But 10 years later, after sharp increases in oil prices, fuel accounted for 22 percent of expenses.

To reduce its \$380-million annual fuel bill, the airline has left few avenues unexplored. It even reduced the weight of its in-flight magazine.

The airline, which is 37.7-percent owned by the Japanese government, has decided to conduct its own search for fuel supplies. It is scheduled to announce

the formation of a subsidiary, the Pacific Fuel Trading Corp., in Los Angeles. It will have storage facilities in San Francisco and plans to expand to Kennedy International Airport in July and to Los Angeles International Airport by 1984.

"Initially, we will sell fuel to Japan Air only, but in the future we may service other airlines," said Kazuo Aoyama, assistant director of the airline's fuel department.

The move is part of a trend among airlines to eliminate uncertainty about supplies. JAL last year joined a group in Anchorage, Alaska, where 16 airlines own a dock and pipeline and a storage facility for 22 million gallons (83.6 million liters) of jet fuel.

"If we buy bulk fuel, we are able to reduce fuel costs," said Hiroaki Yano, vice president of the new subsidiary.

The subsidiary's first facility is small, 2.1 million gallons. Initially, it will service only the airline's freight carriers. But it will allow JAL to enter into the U.S. oil market and give it an opportunity to establish itself as a buyer of jet fuel. For now, 90 percent of the fuel will be bought under contract.

Efficient operations are important as the airline expands in the United States. Under a recent agreement between Japan and the United States, JAL will fly passengers to nine U.S. points, instead of seven. It will begin flying in April to the new destinations, Seattle and Chicago. In exchange, United Airlines

(Continued on Page 15, Col. 6)

N.Y. Stock Prices Leap; Dow Climbs 16 Points

Compiled by Our Staff From Dispatches

NEW YORK — Prices on the New York Stock Exchange soared for the second day in a row Tuesday as speculation increased on Wall Street that the Republicans might do better than most surveys predicted in the congressional elections.

The Dow Jones industrial average rose more than 27 points during the day but pulled back in the last two hours, closing with a gain of 16.38 points at 1,022.08. Advances led declines by better than four to one, and volume swelled to 104.8 million shares from the 73.5 million Monday.

The large volume was unusual because many banks and other financial institutions were closed for Election Day.

Officials in both parties have predicted that the Democrats will gain 18 to 25 seats in the House, which could seriously undermine congressional support for President Reagan's economic programs.

But the stock market managed to stage a rally that caught analysts by surprise. Monday the Dow average climbed 13.98 points, with all of the gain coming in the afternoon.

"The market is definitely giving a more optimistic view of the Republicans' chances than the polls indicate," said John Smith of Fidelity Investments.

Michael Metz of Oppenheimer & Co. said stock prices rebounded because there was too much precautionary selling last week. "I think the market outsmarted the gamblers who thought prices would drop sharply prior to the elections," he said.

Tuesday appeared to be a repeat performance of the Columbus Day semi-holiday on Oct. 11 in which the Dow surged 25.94 points on volume of more than 138 million shares.

William W. Helman of Smith Barney, Harris Upham, said he strongly doubted that the elections outcome "will change the determination of the Federal Reserve in the near to intermediate future to reduce inflation."

However, he noted that "the Fed's job now is to foster recovery" in the economy.

With many banks and the Federal Reserve closed, the federal funds rate banks charge one another for loans dropped to around 8 1/2 percent from around 9 1/2 percent Monday. Many analysts said

the drop in the key rate was not significant but the stock market apparently thought differently.

The declines occurred as speculation heightened the Federal Reserve will cut the discount rate it charges member banks for loans and interest rates will fall as a result.

Among the reasons analysts believe the Fed will cut its rate is the fact loan demand had dropped substantially in the past several weeks. And the nation's money supply growth has subsided.

On the NYSE floor, retail and consumer goods stocks were among the strongest as analysts noted that those industries are expected to be among the first to benefit from an economic recovery.

Strong gains were recorded by active GTE up 1 1/4 to 42 1/2. Penney 1 1/4 to 51 1/4. Walt Disney 1 1/4 to 67 1/4. General Electric 1 to 88 1/4 and Zayre 1 1/4 to 57 1/4.

■ Hong Kong Shares Up News that a plan should be worked out within two years to ensure stability and prosperity in Hong Kong after the British lease runs out in 1997 boosted share prices in Hong Kong, Reuters reported.

Chinese Politburo member Xi Zhongxun gave this view in remarks to a visiting delegation from the Hong Kong Trade Development Council.

The Hang Seng index closed up 50.69 at 822.54 after showing a 58.13 gain at the end of the morning.

U.S. Orders Climb But Remain Weak

Compiled by Our Staff From Dispatches

WASHINGTON — New orders for factory goods rose 0.7 percent in September but were still at the second lowest monthly level of the year, the Commerce Department said Tuesday.

The value of new orders for manufactured goods reached \$155.5 billion in September, rebounding only slightly from August's revised decline of 2.65 percent, the department said. The level of orders was the lowest since January.

The closely watched durable goods orders, including automobiles and machinery, dropped 0.1 percent, or \$33 million, to \$73.93 billion. That was a turnaround from a preliminary report released 10 days ago in which the department estimated that durable orders rose 0.2 percent in September.

Orders for nondurable goods climbed 1.5 percent, or \$11.9 billion, to \$82.59 billion in September, the department said. In August, nondurable orders fell 0.9 percent, or \$744 million.

Shipments by manufacturers in September were down 0.03 percent to a value of \$158.566. Inventories declined 0.8 percent.

Manufacturers' backlogs, in their 14th consecutive monthly decline, fell 1 percent.

The department also said sales of new single-family homes climbed 23.7 percent in September after a revised 5.9-percent increase in August. Initially, the department said sales rose 2 percent in August.

In addition, the department said such home sales in July fell 4.1 percent, instead of declining 5.4 percent as previously reported.

September sales were up 38

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Tuesday's NYSE Closing Prices

Tables include the nationwide prices up to the closing on Wall Street

12 Month High Low Stock Div. Yld. P/E				12 Month High Low Stock Div. Yld. P/E				12 Month High Low Stock Div. Yld. P/E			
AA	1.00	1.00	1.00	AA	1.00	1.00	1.00	AA	1.00	1.00	1.00
AB	1.00	1.00	1.00	AB	1.00	1.00	1.00	AB	1.00	1.00	1.00
AC	1.00	1.00	1.00	AC	1.00	1.00	1.00	AC	1.00	1.00	1.00
AD	1.00	1.00	1.00	AD	1.00	1.00	1.00	AD	1.00	1.00	1.00
AE	1.00	1.00	1.00	AE	1.00	1.00	1.00	AE	1.00	1.00	1.00
AF	1.00	1.00	1.00	AF	1.00	1.00	1.00	AF	1.00	1.00	1.00
AG	1.00	1.00	1.00	AG	1.00	1.00	1.00	AG	1.00	1.00	1.00
AH	1.00	1.00	1.00	AH	1.00	1.00	1.00	AH	1.00	1.00	1.00
AI	1.00	1.00	1.00	AI	1.00	1.00	1.00	AI	1.00	1.00	1.00
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Synfuel Officials To Visit Japan

WASHINGTON — Two top officials of the U.S. Synthetic Fuels Corp. will travel to Japan soon to try to attract Japanese investors to synthetic fuels projects.

The visit comes at a time when private investors in the United States are showing less and less inclination to pour money into synthetic fuels projects. The most recent example of that reluctance was a decision by Standard Oil of Ohio to abandon millions of dollars already spent on a coal gasification project in Gillette, Wyo.

The Synfuels Corp. was scheduled to hand out by the end of the month the first funding for projects developed since the corporation was formed. But the \$60 million pailout from one project and failure of investor support for another potential project make it likely that the corporation will not meet that deadline.

In the meantime, Edward E. Noble, chairman, and Victor A. Schroeder, president of the corporation, will meet with representatives of the Japanese government and private sector representatives in Japan to discuss possible Japanese involvement in developing a U.S. synthetic fuels industry.

Mr. Noble will address the Pan Pacific Synfuels Conference Nov. 18 and Mr. Schroeder will participate in a symposium sponsored by the New Energy Development Organization Nov. 10. Both meetings are in Japan. The Japanese have indicated greater interest in synthetic fuels than Americans, in part because of Japan's drive to diversify the sources of its energy supplies.

12 Month	High	Low	Stock	Div.	Yld.	P/E	52 Wk.	High	Low	Change	Company
519	27	72	Perkin	1.56	27	72	424	27	72	424	Perkin
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Official Japan Nigerians To Curb Spending

LAGOS — President Shehu Shagari of Nigeria on Wednesday is to announce his government's 1983 budget, and economic analysts are predicting that it will be the most stringent in recent years.

A senior economic adviser to the president, Emmanuel Edozien, has indicated that the budget could include plans for more overseas borrowing by the government and a delay in the start of at least one major development program.

Mr. Edozien, speaking in London last week, gave no specific figure of what the government might need to borrow to cover foreign exchange shortages, but he said a \$2.5-billion rail project will be delayed because of short-term cash-flow problems.

The railroad is intended to link Port Harcourt with a major steel plant under construction at Ajaokuta on the Niger River 250 miles (400 kilometers) to the north. The plant is considered vital to the development of an industrial base in Nigeria.

The suspension of the project reflects the economic crisis the government has been facing this year. In April it was forced to impose drastic controls on imports after oil production slumped from a peak two years ago of about 2 million barrels a day to less than 700,000 at one point in March. That left a foreign trade deficit of about \$1 billion a month.

Nigeria is dependent on crude oil exports for around 95 percent of its foreign exchange. Official sources said the budget for the financial year starting in January will be based on the assumption that oil output will be 1 million barrels a day.

Production has recovered since March. For the last few months it has been averaging close to the ceiling of 1.3 million barrels a day that the Organization of Petroleum Exporting Countries set.

Industry sources predict that Nigeria will have averaged nearly 1.5 million barrels a day in October and say that November output is likely to be about the same level.

But the sources said the government is feeling uncertain about making a prediction of its income for all of next year at a time when production prospects are difficult to assess.

Because of that difficulty, the sources said, the government is expected to be cautious in estimating its income for the new year. By using what it considers the lowest likely production figure, it hopes to give itself some leeway on the budget, they said.

Last year's budget was 11.5 billion naira (\$16.8 billion).

Futures Debacle Exposes Outdated Strategy

By H.J. Maidenberger
New York Times Service

NEW YORK — Spreading may be the most conservative form of futures trading, but a recent costly debacle in London illustrated that it takes more than a knowledge of computer programming to make these spreads pay off. It also takes a fundamental knowledge of how a particular market works and, more important, how markets can change overnight and make time-honored trading strategies outmoded in that time.

The debacle gained notoriety in the British press as customers of a London branch of Prudential-Bache Securities told stories of losing large sums after following their brokers' advice and spreading Treasury bond and Government National Mortgage Association certificate futures in Chicago.

Essentially, the spread they asserted the brokers told them would pay off handsomely involved simultaneously selling short Treasury bonds and buying Ginnie Mae futures. Aside from the fact that the initial cash margin and the brokerage commission would be roughly half that required in two "straight" deals, the spread was said to have much to recommend it.

For one thing, the brokers reportedly said, interest rates were falling and thus both the Treasury bonds and Ginnie Mae futures should rise in value. Falling interest rates always rising yields make older and lower-yielding securities less desirable. Because Ginnie Mae futures were selling well below Treasury bonds, they would rise faster — so the sales pitch went.

What happened, however, was that the

steep decline in interest rates in recent months sent Treasury bond futures soaring, while Ginnie Maes moved up only modestly. Since Sept. 1, for example, the December Ginnie Mae futures rose to 69 1/2 from 64, while the same Treasury bond futures jumped to 76 1/2 from 66. Each 1/32 point represents \$31.25 on a contract of \$100,000 face value.

Thus the Treasury bonds that were sold short lost about \$10,531 in this period while the Ginnie Mae leg of the spread gained only \$5,240, which meant a loss of more than \$5,291 on each spread, not counting commissions.

"What obviously went wrong was that the computers were spewing out outmoded historic programs based on the former price relationships of the T-bonds and Ginnie Maes," said David J. Vogel, senior vice president and manager of the interest rates futures department at Thomson McKinnon Securities. "A very long time ago in this business, I'd say the summer of 1981, the prices of both were still perhaps two points apart; a week ago, for example, it was nine points, and is now about seven points. That should have told everyone that the relationship between T-bonds and Ginnie Maes was changing radically."

But the major error was somewhat more complex, Mr. Vogel said. "To put it simply, it resulted from basic misconceptions concerning how the two fixed-income securities would behave during an unusual period of declining interest rates," he said.

Although the drop in rates raised the premium on Ginnie Maes in the cash market, it was meaningless as far as futures were

concerned because the premium in effect evaporates at delivery time, he said.

Those who deliver the physical Ginnie Mae certificates, which are actually baskets of mortgages guaranteed by the U.S. Veterans Administration or the Federal Housing Administration, invariably deliver the cheapest ones. All that matters is that the short seller deliver certificates with a face value of \$100,000 that carry 8 percent coupons — the futures contract specification — regardless of whether the actual instruments were selling at a premium or discount to face value.

Because the average life of a mortgage is 12.5 years, many Ginnie Mae certificates carry much higher coupons, Mr. Vogel noted. "That is why those who sell the futures short have been happy to deliver the actual paper rather than buy out of their positions," he said. "The shorts hand over the cheapest paper they can find and the futures market knows this and contract prices are adjusted accordingly."

That is also why, despite the large premiums that have grown on Ginnie Maes since rates began to drop, their futures prices have not risen very much.

As for Treasury bond futures, they also reflect the increased premiums on the underlying securities. But, Mr. Vogel added, they are, among other things, more permanent debt instruments. Those who sell the bond futures short cannot deliver cheaper paper from the cash market. Cash and futures prices of Treasury bonds are very closely related.

Those who sell Treasury bond futures short may deliver maturities and coupon issues that differ from the contract specification — 20-year, 8-percent bonds with a face value of \$100,000 — by making price adjustments to that standard.

West German VTR Makers Fear a Holiday Price War

By Robert Woodward
Reuters

BONN — The West German videotape recorder market may witness a fierce price war in the approaching holiday season as the pressure from low-priced imports increases, industry sources say.

The competition from Japanese recorders entered a more severe phase with last week's decision by Horien, a leading department store chain, to sell a Sanyo Beta cassette recorder at less than 1,000 Deutsche marks (\$392).

Both Philips and Grundig, which produce the V-2000 system, say they will keep prices, currently ranging between 1,800 and 3,000 DM, stable in the face of the inexpensive Horien offer. Also pledging to hold the line on prices was Sony Deutschland. Sony developed the Beta system and markets it in West Germany.

**JAL Is Scouring
For Fuel Supplies**

(Continued from Page 13)

and Continental Airlines get new landing rights in Japan.

The most profitable routes for the Japanese carrier, which flies to 45 cities outside of Japan, are to Europe. It has been worried, however, about its Pacific routes, where it competes with a dozen airlines. Pan Am, Northwest and Continental are the main competitors over the Pacific.

About 75 percent of the company's revenue comes from its passenger business. Its tour, hotel, ground service and mail operations account for little more than 5 percent of revenues. Cargo handling, one of the company's strengths, makes up 18 percent. And, of the passenger revenue, 75 percent comes from international routes.

In Japan, the carrier flies to only five cities, having less than 20 percent of the market there. Since a fare increase in January, three of its routes are no longer competitive with the high-speed bullet train. And a crash into Tokyo Bay last February has depressed business further.

The only route that makes domestic service worthwhile for the airline is Tokyo to Sapporo.

Other than Pan Am, JAL has the largest fleet of Boeing 747s in the world. As the airline has phased out its DC-8s, it has turned to Boeing Co. for larger, more efficient 747s. It now flies 41 of the jumbos, and five more are on order from Boeing. To finance the purchases, the carrier has issued Japanese government-guaranteed bonds. The fleet rejuvenation will cost nearly \$500 million over the next five years.

But all three companies said they have introduced cheaper models at less than 2,000 DM for the Christmas market, and other industry sources say they expect the present prices to come under increasing pressure.

The West German industry accuses Japanese producers of dumping their excess production in the European Community. Grundig estimates Japanese 1982 VTR production capacity at 16 million units, compared with estimated world demand of about 10 million.

Philips, a subsidiary of the Dutch manufacturer, estimates that about 1.5 million Japanese VTRs are stocked in Western Europe, excluding those already in shops, and says 900,000 more are on their way to Western European ports.

The Japanese Electronics Industry Association said last week that video recorder exports to the EC in September rose 85 percent from a year earlier to 303,000 units.

The West German industry believes consumers have become

more quality conscious since the initial surge of interest in video recorders and hopes the expected one million units sold this year will be higher quality products.

The system offered by Horien contains few extras, West German producers say, adding that a profit is impossible at such a low price.

But high unemployment and the economic downturn may mean price will become the most important purchasing factor. Grundig said the V-2000's market share has been cut by imports.

A spokesman for Philips said that if the present situation on the West German market continues, West German producers and their suppliers would have to reduce production and work forces.

The West German industry is against import controls, and the Economics Ministry said it is not considering taking action similar to that taken last week by France, which centralized all import controls for VTRs at a tiny customs station in Poitiers, in central France — a move viewed as a way to slow imports.

U.S. Money Funds Strive to Cut Banks' Edge

By Kenneth B. Noble
New York Times Service

WASHINGTON — U.S. mutual fund companies, stung by new competition for consumer savings, are exploring the possibility of offering insurance to back the deposits in their money market funds. They also say they are considering lower minimum deposits to attract more customers.

The responses to the new competition are being developed hastily because of legislation approved by Congress last month that allows banks and savings institutions to offer a new account similar to those offered by the money market funds. The banks' account, unlike the funds, will have the advantage of being insured by the federal government.

Although officials and executives in the mutual fund industry express reluctance to discuss publicly the steps they are considering to meet the new challenge, they say that some of the legislation's final provisions took them by surprise.

In a speech, David Silver, president of the Investment Company Institute, a trade association, said the mutual fund industry "has

been exploring methods through which money market fund investors who are seeking maximum safety" can be reassured. Mutual funds offer stock and bond investments as well as money market funds, but the latter account for most of the assets of mutual fund companies.

The Investment Company Institute announced last week that it was exploring the question of seeking coverage for money market fund deposits from private insurance companies. Presumably, the insurance would work much like federal deposit insurance except that it would cost more. The funds

might buy coverage from private insurance companies to protect depositors against the possibility that a fund might fail. But details of how the insurance would work have not been explored yet, according to industry officials.

So far, the exploration of defense tactics appears not to have gone beyond informal discussions among industry leaders. In addition to insurance, according to the trade press, the discussions have dealt with the possibility of lower minimum deposits (now \$1,000 or more at most funds) and the possibility that some mutual funds might follow the example of

Dreyfus Corp. and establish or acquire a bank.

Dreyfus, with \$20 billion in mutual fund assets, recently announced that it had applied for permission from the Comptroller of the Currency to establish a national bank in New York. Meanwhile, Dreyfus is also proceeding with a \$2.5 million tender offer for Lincoln State Bank, a small state-chartered bank in New Jersey. Analysts say both bids are expected to be approved.

The threat to mutual fund companies arose last week when the Comptroller of the Currency ruled that Citibank, and presumably all other banks, could sell mutual fund shares to customers who maintain individual retirement accounts.

The decision means that the funds have lost, at least in part, an advantage over other financial institutions — the ability to let depositors shift their accounts from stock funds to money market funds to bond funds to keep pace with changing market conditions.

Mutual funds have experienced extraordinary growth in the last three years, mostly at the expense of banks and thrift institutions.

as Chase Manhattan and Citibank. On Jan. 1, money center banks reported that 1.2 percent of their assets were in the problem category.

Nevertheless, the list of problem credits at U.S. banks is less imposing than during the recession of 1974 and 1975. Bank regulators have stressed that, even though problem loans and problem banks are growing in numbers, the banking system remains fundamentally sound.

Thomas Hanley, an analyst with the firm, said the 35 banks he surveys every quarter had "substandard" assets (mainly loans) of \$18 billion as of Sept. 30, up from \$14.8 billion on June 30 and \$11 billion at the start of 1982.

Substandard assets include loans that are not being repaid on schedule, real estate loans on which a bank has foreclosed and taken possession of the property and loans the bank thinks are shaky.

Bankers say most nonperforming loans eventually are paid off in full. Although the recession is the main reason banks are seeing a big increase in problem loans, several banks are holding large problem loans they purchased from the failed Penn Square National Bank in Oklahoma City.

At the head of the list of major banks with large amounts of problem loans was Continental Illinois National Bank of Chicago with nearly \$2.1 billion, or 4.7 percent, of its assets classified as nonperforming at the end of September. The average for all major, money center banks such as Continental was 1.7 percent of assets.

At the beginning of the year, \$660 million, or 1.4 percent, of Continental's assets were classified as nonperforming. That was about the same as other big banks such

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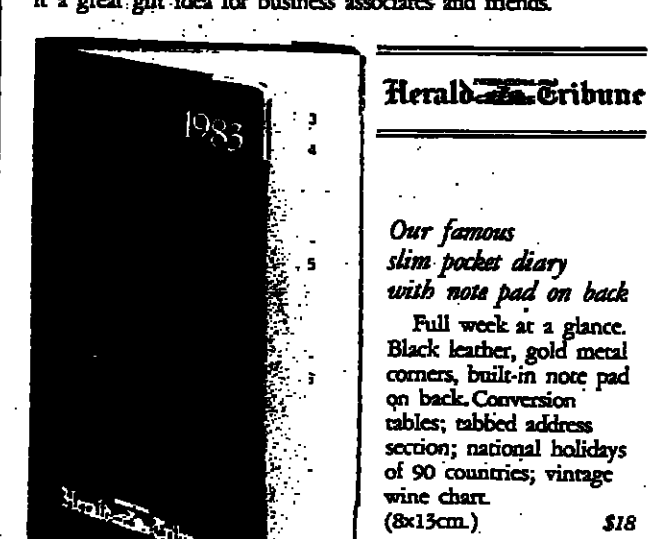
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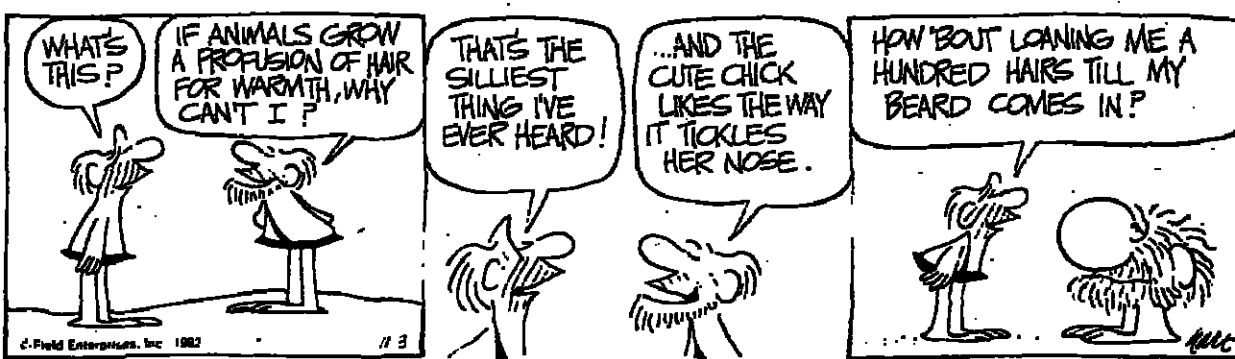
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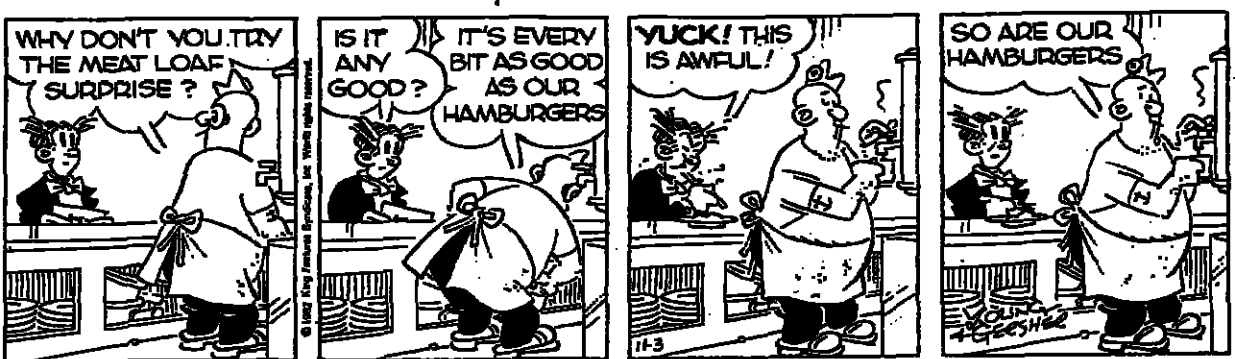
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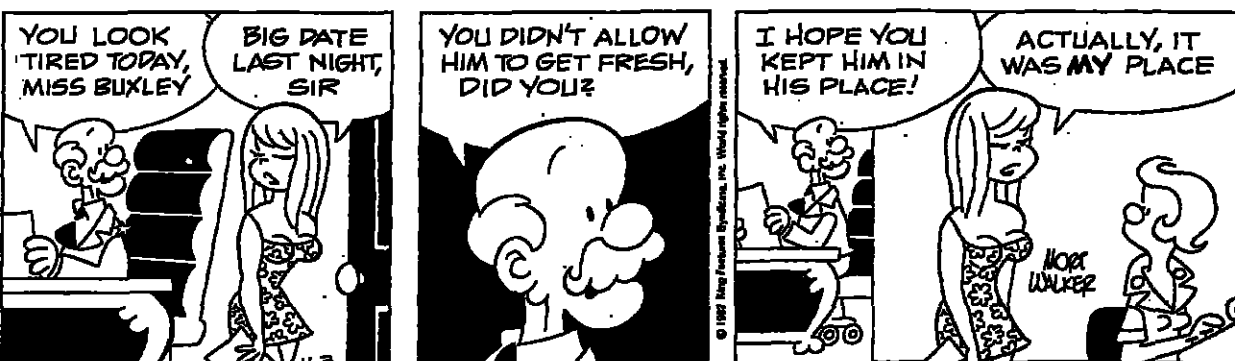
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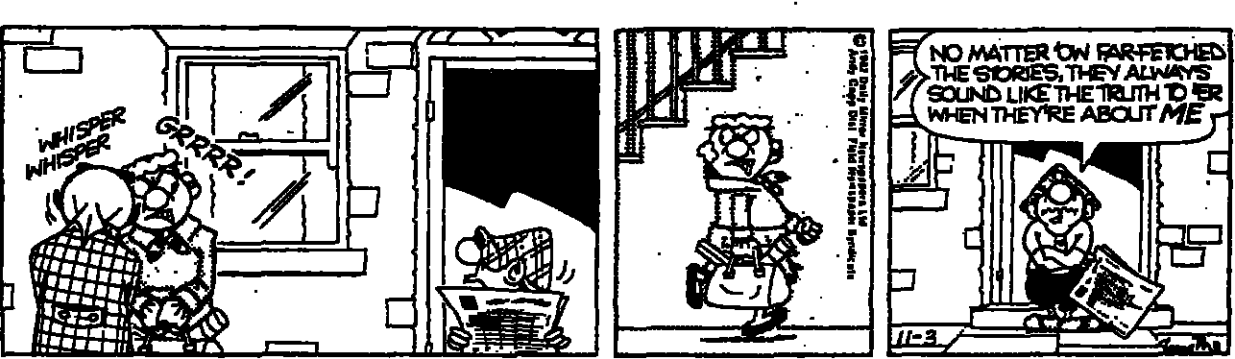
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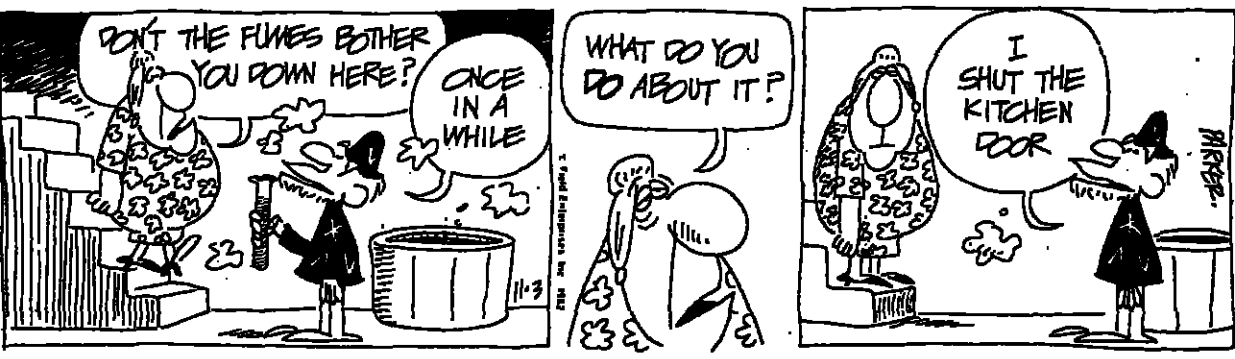
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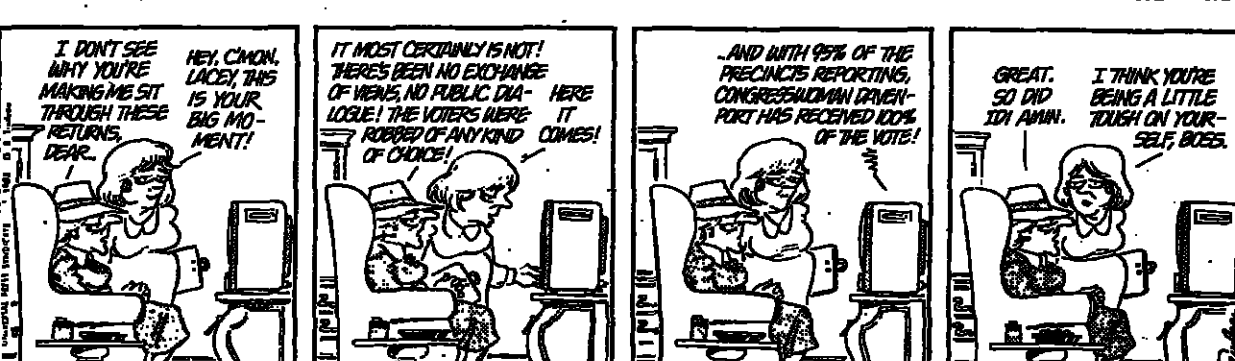
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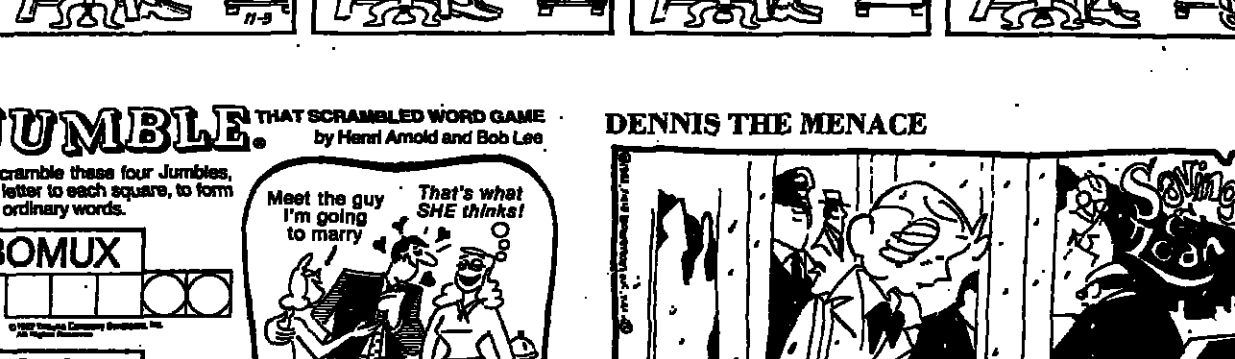
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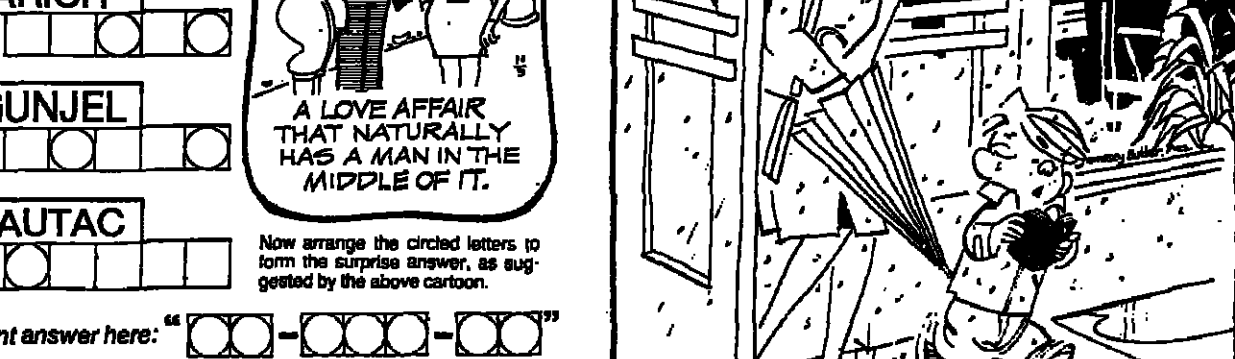
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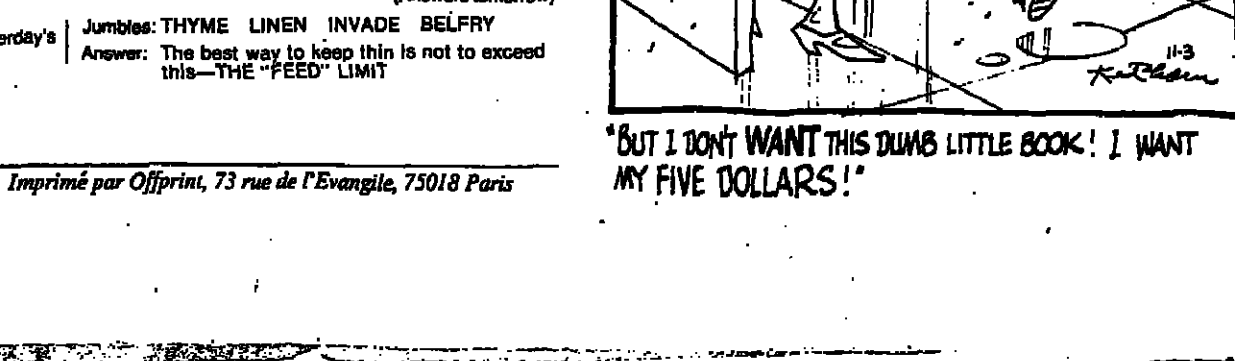
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BOOKS

THE NUCLEAR DELUSION

Soviet-American Relations in the Atomic Age By George F. Kennan. 207 pp. \$13.95.

Pantheon, 201 East 50th St., New York, N.Y. 10022.

Reviewed by Christopher Lehmann-Haupt

GEORGE F. KENNAN'S "The Nuclear Delusion" is a civilized man's passionate and intelligent appeal to the United States to come to its senses and forsake the insanity of the nuclear arms race. It takes the form of a collection of articles, interviews, speeches, and excerpts from the author's previous books. It is on the whole a very good book, yet all the more effective for being so, insofar as each repetition extends our grasp of a particular topic.

testing of nuclear explosives of any sort.

And he "would like to see the president couple" an appeal for a mutual Soviet-American 50-percent reduction of all nuclear weapons "with the proposal that there be established a joint Soviet-American scientific committee, under the chairmanship of a distinguished neutral figure, to study jointly and in all humility the problem not only of the safe disposal of the resulting 'wastes' but also of how they could be utilized in such a way as to make a positive contribution to human life, either in the two countries themselves or perhaps preferably elsewhere. In such a joint scientific venture we might both atone for some of our past follies and lay the foundation for a more constructive relationship."

Under more usual circumstances, this proposal might sound naive. But such is Kennan's passion and eloquence, not to speak of the grimness of the picture he draws, that it sounds like the last best hope for humanity. Where he is not reassuring is in his failure to touch on the problem of nuclear proliferation: Will it really be the superpowers that start the ultimate conflagration, or some obscure fanatical leader determined to sink the world along with his tiny country?

And how are we to get rid of all nuclear weapons in the world, thus assuring ourselves that no one will blackmail us in the event of new unilateral disarmament? Of course, such worst-case paranoia is precisely what Kennan is fighting. His aim is to bring the United States and the Soviet Union to their senses, not to point the way to a nuclear-free utopia. Still, one can't help wondering if the real solution to war in this fearful new world that has dawned isn't the absolute certainty that any concerted act of international violence may well lead to nuclear holocaust. How else end war as a tool of diplomacy, except to render it absolutely pointless? And isn't that what nuclear weaponry has accomplished?

Christopher Lehmann-Haupt is on the staff of The New York Times.

BEST SELLERS

Table listing best-selling books and their authors.

BRIDGE

By Alan Truscott

IN the diagrammed deal, South opened one no-trump, using the Precision System. West's overall of two clubs conventionally showed a long suit somewhere, and this proved to be hearts. North showed a strong hand with a cue-bid in hearts and suggested spades. South insisted on no-trump, but had to play at the level of four.

But he saw another play that offered a chance of 12 tricks if, as was likely, West held the heart king and the diamond ace.

A diamond was led and West had to play low. The queen won in dummy, and South's plan was to take eight more tricks in the black suits and set West up for an end-r. In order to keep the guard for the heart king he would have to bare the diamond ace, so a diamond lead would give South 12 tricks by forcing a lead from the heart king.

The bad spade ruled out this possibility and South now had to work to make 11 tricks. After nine tricks the lead was in his hand in this position:

Bridge hand diagram showing North, South, West, and East hands with cards and suits.

North and South were vulnerable. The bidding:

Table showing the bidding sequence for the bridge hand.

If West had bared the diamond ace, South would have led that suit. As it was, South judged the position correctly. He led the heart ace followed by the queen, and scored his diamond king at the finish to make 11 tricks.

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